Childrens Hospital Los Angeles

Consolidated Financial Statements as of and for the Years Ended June 30, 2008 and 2007, Supplemental Schedule for the Year Ended June 30, 2008, Compliance Reports for the Year Ended June 30, 2008, and Independent Auditors' Report

DATE RECEIVED:

RECEIVED
APR 13 2009
By

AUDIT REVIEW #(s) 04578

Assigned To: ln

Date Reviewed: 4/16/09

Reviewer's Initials: gl

Date Review(s) Completed: 7/21/09

STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, Governor

CALIFORNIA EMERGENCY MANAGEMENT AGENCY
LOCAL ASSISTANCE MONITORING BRANCH
3650 SCHRIEVER AVENUE
MATHER, CALIFORNIA 95655
PHONE: (916) 845-8120 FAX: (916) 845-8380

RECEIVED
APR 29 2009
By sent 4/24/09

April 17, 2009

Ms. Lisa de Gyarfas
Director, HRY Program
Children's Hospital of Los Angeles
27980 MS#2
Los Angeles, CA 90027

SUBJECT: SINGLE AUDIT REPORT FOR THE PERIOD ENDED JUNE 30, 2008

Ms. de Gyarfas:

The California Emergency Management Agency (CalEMA) has received and reviewed the above subject audit report issued by Deloitte & Touche, LLP on November 21, 2008. The report indicates there were certain matters reported to management in a separate letter dated November 21, 2008, provided to the Children's Hospital of Los Angeles.

OMB Circular A-133, §____.310 (f) states, *"...auditees shall submit the appropriate copies of the reporting package described in paragraph (c) of this section and, if requested, a copy of any management letters issued by the auditor."* In accordance with the Circular, please submit a copy of the November 21, 2008, management letter to CalEMA by May 18, 2009. The copy should be sent to:

Julie In
Governor's Office of Emergency Services
Local Assistance Monitoring Branch
3650 Schriever Avenue
Mather, CA 95650

In the event you have any questions or concerns regarding this issue, please contact Julie In, CalEMA Local Assistance Monitoring Branch at (916) 845-8127 or Julie.In@oes.ca.gov.

Sincerely,

MBaldwin

MICHAEL BALDWIN
BRANCH CHIEF

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APR 2 3 2009
BY:

STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, Governor

CALIFORNIA EMERGENCY MANAGEMENT AGENCY
LOCAL ASSISTANCE MONITORING BRANCH
3650 SCHRIEVER AVENUE
MATHER, CALIFORNIA 95655
PHONE: (916) 845-8120 FAX: (916) 845-8380

HYEP 8211-SCG004618-02

sent 4/9/09

January 28, 2009

RECEIVED
APR 13 2009
By

Ms. Lisa de Gyarfas
Director, HRY Program
Childrens Hospital of Los Angeles
27980 MS#2
Los Angeles, CA 90027

SUBJECT: SUBMISSION OF 2008 FISCAL YEAR SINGLE AUDIT REPORT

Dear Ms. de Gyarfas:

The Single Audit Act and Office of Management and Budget (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, requires non-federal entities that expend equal to or in excess of $500,000 in a fiscal year in federal awards to have an audit performed in accordance with the Single Audit Act.

Single audit reporting packages are due nine months after the entity's fiscal year-end. For most California entities, the reporting package is due March 31, 2009. The California Emergency Management Agency (CalEMA) records indicate your organization has reached the reporting threshold for the 2008 reporting year. Please take appropriate action to ensure compliance with the federal reporting requirement.

If your federal awards expenditures were less than $500,000, please provide the California Emergency Management Agency (CalEMA) with written notification of your exempt status. However, if a single audit is required, your reporting package should be submitted by March 31, 2009, by mail to the following address or you may transmit your reporting package via e-mail to Samantha.Aston@oes.ca.gov.

California Emergency Management Agency (CalEMA)
Local Assistance Monitoring Branch
3650 Schriever Avenue
Mather, CA 95650

If you have any questions, please contact the CalEMA Local Assistance Monitoring Branch at (916) 845-8120.

RECEIVED
FEB 04 2009
BY:

Sincerely,

MICHAEL BALDWIN
BRANCH CHIEF

Attachment

CHILDRENS HOSPITAL LOS ANGELES

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
Suite 200
350 South Grand Avenue
Los Angeles, CA 90071-3462
USA

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Fax: +1 213 688 0100
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Childrens Hospital Los Angeles:

We have audited the accompanying consolidated balance sheets of financial position of Childrens Hospital Los Angeles (the "Hospital") as of June 30, 2008 and 2007, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of June 30, 2008 and 2007, and the consolidated results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic 2008 consolidated financial statements, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic 2008 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2008 consolidated financial statements taken as a whole.

Deloitte & Touche LLP

November 21, 2008, except for Note 18
as to which the date is March 31, 2009

CHILDRENS HOSPITAL LOS ANGELES

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2008 AND 2007
(In thousands)

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 19,458	$ 8,203
Patient accounts receivable — net of allowance for doubtful accounts of $13,025 and $16,433 at June 30, 2008 and 2007, respectively	72,225	82,630
Current portion of pledges receivable (Note 5)	21,530	23,430
Securities lent under securities lending program (Note 4)	41,549	45,348
Collateral received under securities lending program	42,365	46,417
Grants receivable	7,714	10,362
Receivables under government and state programs		3,216
Current portion of trustee-held funds (Notes 4 and 6)	16,936	3,567
Restricted cash — Proposition 61 Funds (Note 9)	76	13,755
Other current assets (Note 15)	21,366	21,083
Total current assets	243,219	258,011
ASSETS LIMITED AS TO USE (Notes 4, 6 and 17):		
Investments	466,698	509,367
Unitrust investments	4,468	5,184
Other restricted and board-designated investments	94,120	67,096
Trustee-held funds — net of amount required to meet current obligations	88,533	193,774
Total assets limited as to use — net of current portion	653,819	775,421
PLEDGES RECEIVABLE — Net of current portion (Note 5)	52,723	50,189
INTEREST RATE SWAP (Note 8)		1,716
OTHER ASSETS (Note 15)	22,227	23,600
PROPERTY, PLANT, AND EQUIPMENT (Note 7)	580,236	447,492
TOTAL	$1,552,224	$1,556,429

(Continued)

CHILDRENS HOSPITAL LOS ANGELES

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2008 AND 2007
(In thousands)

	2008	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 60,714	$ 46,366
Salaries, wages, and related liabilities	31,490	30,146
Payable under securities lending program	42,365	46,417
Payable under government and state programs	1,371	
Proposition 61 — advances (Note 9)	76	13,755
Current portion of long-term debt (Note 8)	7,035	4,390
Total current liabilities	143,051	141,074
LONG-TERM DEBT — Net of current portion (Note 8)	494,853	502,031
LIABILITY UNDER UNITRUST AGREEMENTS	2,651	2,849
INTEREST RATE SWAP (Note 8)	2,116	
OTHER NONCURRENT LIABILITIES (Note 10)	25,302	17,599
Total liabilities	667,973	663,553
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS:		
Unrestricted:		
Operating	115,294	112,365
Board-designated	409,605	430,760
Total unrestricted net assets	524,899	543,125
Temporarily restricted (Note 11)	222,401	213,233
Permanently restricted (Note 11)	136,951	136,518
Total net assets	884,251	892,876
TOTAL	$1,552,224	$1,556,429

See notes to consolidated financial statements.

(Concluded)

CHILDRENS HOSPITAL LOS ANGELES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(In thousands)

	2008	2007
REVENUES (Notes 8 and 13):		
Net patient service revenue (Note 3)	$372,489	$344,663
Grants, contracts, and other	98,579	83,923
Unrestricted gifts and bequests	27,072	25,585
Investment income used for operations, research, and education (Note 4)	13,027	13,191
Net assets released from restrictions used for operations, research, and education	32,052	30,292
Total revenues	543,219	497,654
EXPENSES (Note 13):		
Salaries and employee benefits (Note 12)	285,511	258,084
Professional fees and purchased services (Note 15)	104,477	106,619
Supplies	73,758	65,168
Provision for doubtful accounts	9,926	11,506
Utilities	7,567	7,678
Rent (Note 10)	6,103	6,307
Insurance	3,464	3,031
Travel, dues, and subscriptions	4,513	3,531
Equipment	4,425	1,847
Other	13,407	14,634
Total expenses before depreciation, amortization, and interest	513,151	478,405
EXCESS OF REVENUES OVER EXPENSES BEFORE DEPRECIATION, AMORTIZATION, AND INTEREST	30,068	19,249
DEPRECIATION, AMORTIZATION, AND INTEREST:		
Depreciation and amortization	43,755	40,778
Interest	16,507	13,119
Total depreciation, amortization, and interest	60,262	53,897
DEFICIENCY OF REVENUES OVER EXPENSES	(30,194)	(34,648)
OTHER GAINS AND LOSSES:		
Net realized and unrealized gain on investments held for trading (Note 4)	28,014	
Realized gain on investments — net (Note 4)		25,013
Other investment loss — net (Note 4)	(3,062)	(4,370)
Interest rate swap mark to market loss (Note 8)	(3,832)	(94)
Other losses — net	(107)	(4)
Total other gains and losses	21,013	20,545
DEFICIENCY OF REVENUES OVER EXPENSES AND OTHER GAINS AND LOSSES	(9,181)	(14,103)
CHANGE IN UNREALIZED GAIN ON UNRESTRICTED INVESTMENTS AVAILABLE-FOR-SALE (Note 4)	(56,166)	29,927
PROPOSITION 61 — Building construction revenue (Note 9)	33,043	20,556
FEMA GRANT REVENUE (Note 14)	14,016	19,557
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR PURCHASE OF PROPERTY AND EQUIPMENT	2,443	5,307
TRANSFERS AND OTHER	(2,381)	2,055
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ (18,226)	$ 63,299

See notes to consolidated financial statements.

CHILDRENS HOSPITAL LOS ANGELES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(In thousands)

	2008	2007
UNRESTRICTED NET ASSETS:		
Deficiency of revenues over expenses and other gains and losses	$ (9,181)	$ (14,103)
Changed in unrealized gain on unrestricted investments available-for-sale (Note 4)	(56,166)	29,927
Proposition 61 — building construction revenue (Note 9)	33,043	20,556
FEMA grant revenue (Note 14)	14,016	19,557
Net assets released from restrictions used for purchase of property and equipment	2,443	5,307
Transfers and other	(2,381)	2,055
(Decrease) increase in unrestricted net assets	(18,226)	63,299
TEMPORARILY RESTRICTED NET ASSETS:		
Restricted grants, gifts, and bequests	44,431	43,943
Net investment income on restricted gifts and endowments (Note 4)	5,556	3,898
Realized gain on sale of restricted investments — net (Note 4)	11,161	9,923
Net unrealized (loss) gain on restricted investments (Note 4)	(17,728)	12,338
Net assets released from restrictions used for operations, research, and education	(32,052)	(30,292)
Net assets released from restrictions used for purchase of property and equipment	(2,443)	(5,307)
Change in value of split-interest agreements	(34)	393
Reclassification of net assets	277	(32)
Increase in temporarily restricted net assets	9,168	34,864
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	1,621	3,679
Change in value of split-interest agreements	113	
Reclassification of net assets	(1,301)	(124)
Increase in permanently restricted net assets	433	3,555
CHANGE IN NET ASSETS	(8,625)	101,718
NET ASSETS — Beginning of year	892,876	791,158
NET ASSETS — End of year	$ 884,251	$ 892,876

See notes to consolidated financial statements.

CHILDRENS HOSPITAL LOS ANGELES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(In thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (8,625)	$ 101,718
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property, plant, and equipment	43,165	40,215
Amortization of bond issuance costs	590	563
Amortization of bond discounts and premiums — net	(143)	(117)
Provision for doubtful accounts	9,926	11,506
Net realized and unrealized loss (gain) on investments	34,719	(77,201)
Loss on disposal of property, plant, and equipment	119	4
Contributions temporarily restricted for purchases of long-lived assets	(8,950)	(16,915)
Permanently restricted contributions	(1,621)	(3,679)
Proposition 61 — building construction revenue	(33,043)	(20,556)
FEMA grant revenue	(14,016)	(19,557)
Changes in operating assets and liabilities:		
Patient accounts receivable	479	(20,304)
Pledges receivable	(634)	2,573
Grants receivable	2,648	10,992
Receivables/payables under government and state programs	4,587	20,905
Other current assets	(283)	(2,571)
Interest rate swap mark to market loss	3,832	94
Other assets	1,330	(2,334)
Accounts payable and accrued expenses	(8,277)	(14,605)
Salaries, wages, and related liabilities	1,344	7,248
Liability under unitrust agreements	(198)	(656)
Other noncurrent liabilities	7,703	(2,430)
Net cash provided by operating activities	34,652	14,893
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(343,799)	(398,453)
Sale of investments	329,240	403,875
Cost of property, plant, and equipment acquired	(153,403)	(67,000)
Transfers from trustee-held funds	91,872	
Transfers to trustee-held funds		(182,903)
Restricted cash — Proposition 61 Funds	13,679	19,536
Net cash used in investing activities	(62,411)	(224,945)

(Continued)

CHILDRENS HOSPITAL LOS ANGELES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(In thousands)

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	$ (4,390)	$ (4,165)
Contributions temporarily restricted for purchase of long-lived assets	8,950	16,915
Proceeds from permanently restricted contributions	1,621	3,679
Proposition 61 — advances	19,364	1,020
FEMA grant revenue	14,016	19,557
Proceeds from issuance of long-term debt		170,792
Payment of financing costs	(547)	(1,500)
Net cash provided by financing activities	39,014	206,298
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,255	(3,754)
CASH AND CASH EQUIVALENTS — Beginning of year	8,203	11,957
CASH AND CASH EQUIVALENTS — End of year	$ 19,458	$ 8,203
SUPPLEMENTAL INFORMATION RELATING TO NONCASH ITEMS:		
Property and equipment acquisitions included in accounts payable	$ 22,625	$ 11,288
Change in collateral received under securities lending program	$ (4,052)	$ 12,927
Change in payable under securities lending program	$ (4,052)	$ 12,927

See notes to consolidated financial statements. (Concluded)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Childrens Hospital Los Angeles (CHLA), a not-for-profit corporation organized under the laws of the State of California, is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar California statutes and, as such, is exempt from federal income taxes and state franchise taxes.

CHLA is the sole corporate member of Versant Advantage, Inc. ("Versant"), a not-for-profit corporation organized under the laws of the State of California, which is a tax-exempt organization under Section 501(c)(3) of the IRC and similar California statutes and, as such, is exempt from federal income taxes and state franchise taxes. Versant was formed to provide educational programs for registered nurses and nursing students relating to the medical treatment of patients.

These consolidated financial statements include CHLA and Versant (collectively referred to as the "Hospital"). All intercompany transactions have been eliminated.

The Hospital's principal mission is to promote and advance the state of children's health, focusing on tertiary and quaternary specialties in patient care, research, and education.

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deficiency of Revenues Over Expenses and Other Gains and Losses — The consolidated statements of activities include the deficiency of revenues over expenses and other gains and losses. Changes in unrestricted net assets, which are excluded from this total and consistent with industry practice, include revenues recognized from Proposition 61 and Federal Emergency Management Administration (FEMA) reimbursements, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purposes of acquiring such assets), and unrealized gains on investments available-for-sale.

Cash and Cash Equivalents — Cash and cash equivalents include investments with a maturity of three months or less at the time of purchase, excluding amounts whose use is limited by Board of Trustees (the "Board") designation or other arrangements under trust agreements and cash held by the Hospital's investment managers that will be invested based on the Hospital's long-term investment strategy. The Hospital holds deposits in excess of Federal Deposit Insurance Corporation limits. At June 30, 2008, uninsured, uncollateralized deposits were approximately $20.1 million. These deposits are held by creditworthy, high quality, financial institutions.

Securities Lending — The Hospital participates in securities lending transactions with their custodian, whereby the Hospital lends a portion of its investments to various brokers in exchange for collateral for the securities loaned, usually on a short-term basis. Collateral provided by brokers is maintained at levels of at least 100% of the fair value of the securities on loan and is adjusted for market fluctuations. The Hospital maintains effective control of the loaned securities through its custodian during the term of the arrangement in that they may be recalled at any time. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. The market value of collateral held for loaned securities is reported as collateral received under securities lending program, and a corresponding obligation is reported for repayment of such collateral upon settlement of the lending transaction. The market value of the securities on loan was $41.5 million and $45.3 million as of June 30, 2008 and 2007, respectively.

Pledges Receivable — Pledges due in fiscal 2009 are included in current assets and pledges due after fiscal 2009 are included in noncurrent assets. The pledges due in greater than one year are reported at net present value using risk-free interest rates at the date of such pledges, which vary between 2.0% and 6.4%.

Inventories — Inventories are stated at the lower of cost or market value, which is determined using the weighted-average method, and are included in other current assets in the accompanying consolidated balance sheets. The carrying value of inventories is $5.2 million and $5.3 million at June 30, 2008 and 2007, respectively.

Property, Plant, and Equipment — Property, plant, and equipment acquired by purchase are recorded at cost. Donated items are recorded at estimated fair market value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the depreciable assets. Estimated useful lives by classification are as follows:

Land improvements	3–20 years
Buildings and improvements	5–40 years
Equipment	3–20 years

Asset Impairment — The Hospital periodically evaluates the carrying value of its long-lived assets for impairment. In accordance with Financial Accounting Standards Board (FASB) Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, a write-down is recorded. No impairments were recorded during the years ended June 30, 2008 and 2007.

Investments and Investment Income — Investments consist primarily of equity and debt securities purchased by the Hospital and unitrusts for which the Hospital has been designated as trustee and beneficiary. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based upon publicly quoted market prices or quotations of similar securities. Investments for which readily determinable market values do not exist, including alternative investments, are recorded at fair value, determined by the Hospital, with the assistance of fund managers, the general partners, or third-party service providers, using methods and significant assumptions the Hospital considers appropriate based on its understanding of the underlying characteristics of the investments.

At June 30, 2008, the Hospital reclassified its investment portfolio to a trading portfolio from available-for-sale. As such, cumulative net unrealized holding gains from current and prior years of $9.3 million were recorded in other gains and losses in 2008. In periods subsequent to June 30, 2008, all unrestricted net unrealized holdings gains or losses will be recorded in other gains and losses in the period in which they occur (see Note 4).

Investment income (which includes interest and dividends) and realized gains or losses are included in the deficiency of revenues over expenses and other gains and losses, unless the income or loss is restricted by donor or law.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets (see Note 17).

Assets Limited as to Use — Assets limited as to use primarily include assets restricted by donors or designated by the Board for future capital improvements, patient care, research, and other uses. The net assets over which the Board retains control may, at its discretion, subsequently be used for other purposes. Assets held by trustees under indenture agreements, escrow deposits, and various unitrusts are also included within assets limited as to use.

Donor-Restricted Gifts — Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Unitrust Agreements — The Hospital has been designated as trustee for several trusts. The trust agreements generally require the Hospital to make payments to beneficiaries based on stipulated interest rates, which range from 3.5% to 10.5%, applied to the fair market value of the trust assets determined either annually or at inception of the trust.

Interest Rate Swap — The Hospital accounts for its interest rate swap in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted. FASB Statement No. 133 requires all derivatives to be recorded on the balance sheet at fair value as either assets or liabilities, depending on the rights or obligations under the contract. FASB Statement No. 133 would require that changes in the fair value of derivative financial instruments that qualify and are designated as fair value hedges be recorded in operating income as offsets to the changes in fair values of the exposures being hedged. However, the Hospital has not designated its derivative financial instrument as a hedge. Accordingly, all unrealized gains and losses are recognized as other gains and losses in the accompanying consolidated statements of activities.

Temporarily and Permanently Restricted Net Assets — Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets are those with donor-imposed restrictions that are to be maintained by the Hospital in perpetuity.

Net Patient Service Revenue — The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grants and Contracts Revenues — Grants and contracts revenues generally are recognized as unrestricted revenues and grants receivable when the research or educational expenses are incurred. Unspent grant funds from federal and other grantors received in advance of the related expenditure are reported as deferred revenue.

Graduate Medical Education — The Hospital underwrites a large part of the cost of training allied health professionals, physicians, and residents in its emergency rooms, clinics, and inpatient areas. The Hospital received \$8.8 million and \$9.2 million in federal Graduate Medical Education funds during the years ended June 30, 2008 and 2007, respectively.

Fund-Raising — The Hospital sponsors various fund-raising events in addition to the solicitation of grants and private donations. During the years ended June 30, 2008 and 2007, the Hospital incurred \$13.4 million and \$11.5 million, respectively, in fund-raising costs.

Income Tax Uncertainty — The Hospital adopted the provisions of FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, for the year ended June 30, 2008. FIN No. 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The adoption did not have a material impact on the Hospital's consolidated financial position or results of operations, and the Hospital has not recognized an increase in the liability for unrecognized tax benefits. The Hospital's liability for unrecognized tax benefits was \$0 at both the beginning and the end of the year ended June 30, 2008.

Recent Accounting Pronouncements — In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133*. This statement is intended to improve reporting standards for derivative instruments and hedging activities by requiring enhanced disclosures to provide a better understanding of their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivatives instruments and related hedge items are accounted for under FASB Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedge items affect an entity's financial position, financial performance, and cash flows. This statement is effective for the Hospital beginning July 1, 2009. Adoption is not expected to have a significant affect on the Hospital's consolidated financial position or results of operations.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*. The objective of this statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FASB Statement No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the reporting entity and the interests of the noncontrolling owners and that require minority ownership interests to be presented separately within net assets in the consolidated financial statements. FASB Statement No. 160 is effective for the Hospital beginning July 1, 2009. The Hospital's management is currently evaluating the effect of adopting this statement.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*. FASB Statement No. 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which entities measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. FASB Statement No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. FASB Statement No. 157 does not expand the use of fair value in any new circumstances. FASB Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Hospital does not expect the adoption of FASB Statement No. 157 to have a material impact on its consolidated financial position or results of operations.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*. FASB Statement No. 159 allows companies to elect fair value accounting for many financial instruments and other items that currently are not required to be accounted as such, allows different applications for electing the option for a single item or groups of items, and requires disclosures to facilitate comparisons of similar assets and liabilities that are accounted for differently in relation to the fair value option. FASB Statement No. 159 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact that the adoption of FASB Statement No. 159 will have on the Hospital's financial position, results of operations, and cash flows but currently does not believe it will have a material impact on the Hospital's consolidated financial statements.

In August 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*. The guidance is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. It provides guidance on classifying the net assets (equity) associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. It also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The provisions are effective for fiscal years ending after December 15, 2008. Management is currently evaluating the impact that the adoption of FSP FAS 117-1 will have on the Hospital's financial position, results of operations, and cash flows but currently does not believe it will have a material impact on the Hospital's consolidated financial statements.

Reclassification — Certain reclassifications were made in the 2007 consolidated financial statements to conform to the 2008 presentation. Specifically, the interest rate swap market to market loss of $94,000 was shown below the deficiency of revenues over expenses and other gains and losses in 2007. This amount is included in the deficiency of revenues over expenses and other gains and losses in 2008.

2. CHARITY CARE AND COMMUNITY SERVICES

It is the policy of the Hospital to strive to maintain quality health care delivery in a manner that respects the dignity of the individual and family, regardless of ability to pay. Consistent with the Hospital's tax-exempt status and community service responsibilities, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates.

Under the Hospital's policy, charity care may be provided to people who are uninsured or underinsured and cannot afford to pay for their own medical care. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Hospital provides additional community support through the unpaid cost of public programs, which is defined as the cost of treating Medi-Cal (the California Medicaid program) and indigent beneficiaries in excess of government payments. These costs are calculated through the Hospital's cost accounting system utilizing standard costing for the services provided and step-down cost allocation methodologies. During the years ended June 30, 2008 and 2007, the unpaid cost of Medi-Cal programs totaled $54.7 million and $89.2 million, respectively. The Medi-Cal program offset some of these unpaid costs through the Disproportionate Share Hospital program in the amounts of $45.8 million and $47.8 million respectively.

Support from the United Way and other agencies for charity care and the unpaid cost of public programs amounted to $3.7 million and $1.5 million in the years ended June 30, 2008 and 2007, respectively.

The Hospital underwrites part of the cost of research, which takes place in its facilities. The costs underwritten for research for the years ended June 30, 2008 and 2007, amounted to $22.5 million and $7.9 million, respectively.

As described in Note 1, the Hospital underwrites a large part of the cost of training allied health professionals, physicians, and residents in its facilities. The costs underwritten for training for the years ended June 30, 2008 and 2007, were $11.2 million and $6.5 million, respectively.

The Hospital also sponsors various community services to benefit the physically, mentally, and genetically disabled as part of its charitable mission. These services include parental counseling, educational seminars, family support groups, and an outreach organization for families administered by the Hospital in an agency relationship and funded by the State of California. Additionally, a large number of health related educational programs are provided for the benefit of the community, including health enhancements and wellness, telephone information services, and programs designed to improve the general standards of the health of the community.

3. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist primarily of marketable securities, investments in limited partnerships, patient accounts receivable, and pledges receivable. The investment portfolios are managed primarily by professional investment managers (see Note 15) within the guidelines established by the Board, which, as a matter of policy, limit the amounts that may be invested in any one issuer. Concentration of credit risk with respect to patient accounts receivable from non-government payors is limited due to the large number of payors composing the Hospital's patient base.

A significant portion of the Hospital's net patient care revenues is derived from Medi-Cal patients, comprising 69% and 68% in the years ended June 30, 2008 and 2007, respectively. Inpatient services are reimbursed based upon contractually agreed-upon per diem rates, while outpatient services are reimbursed based upon statewide fee schedules.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred providers, and other organizations. The basis for payment to the Hospital under these agreements includes prospectively determined daily rates, case rates, and discounts from established charges. A total of 25.9% and 27.5% in the years ended June 30, 2008 and 2007, respectively, of the Hospital's net patient care revenue is derived from these types of charges.

The California State Legislature has passed Senate bills in order to provide for supplemental Medi-Cal payments to hospitals that serve a disproportionately high percentage of Medi-Cal and other low income patients. As discussed in Note 2, the Hospital has recorded $45.8 million and $47.8 million in the years ended June 30, 2008 and 2007, respectively, in net patient service revenue relating to these Senate bills.

Certain third-party payors provide for payments to the Hospital at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the payors. These settlement amounts are included in receivables (or payables) under government and state programs in the accompanying consolidated balance sheets. As of June 30, 2008, the Hospital had recorded a payable balance of $1.4 million compared to a receivable balance of $3.2 million as of June 30, 2007.

4. INVESTMENTS

The carrying amounts of investments at June 30, 2008 and 2007, are as follows (in thousands):

	2008	2007
Securities lent under securities lending program	$ 41,549	$ 45,348
Current portion of trustee-held funds (Note 6)	16,936	3,567
	58,485	48,915
Cash and cash equivalents	77,771	47,597
Debt securities	142,441	149,576
Equity securities	283,322	331,045
Alternative investments	103,301	98,777
Trustee-held funds (Note 6)	88,533	193,774
Less securities lent	(41,549)	(45,348)
Assets limited as to use	653,819	775,421
Total investments	$712,304	$824,336

The cash and cash equivalents included in investments at June 30, 2008 and 2007, represent cash held by the Hospital's investment managers that will be invested based on the Hospital's long-term investment strategy.

The Hospital has entered into certain agreements with a private equity fund to make future investments in that fund. As of June 30, 2008, total remaining commitments for investment in the fund are $7.4 million. For the years ended June 30, 2008 and 2007, the Hospital invested $4.2 million and $3.1 million, respectively, in the private equity fund which are included in alternative investments.

As discussed in Note 1, at June 30, 2008, the Hospital reclassified its investment portfolio from available-for-sale to a trading portfolio. As a result of this reclassification, cumulative unrestricted net unrealized gains from current and prior years of $9.3 million were recorded in other gains and losses at the date of change. In prior years, these unrealized gains and losses were recorded as a change to unrestricted net assets.

Investment income and gains for assets limited as to use, cash equivalents, and other investments for the years ended June 30, 2008 and 2007, are composed of the following (in thousands):

	2008	2007
Investment income — net of fees	$ 9,965	$ 8,821
Realized gain on sales of investments — net	18,676	25,013
Unrealized (loss) gain on investments — net	(46,828)	29,927
Unrestricted net investment income	(18,187)	63,761
Investment income — net of fees	5,556	3,898
Realized gain on sales of investments — net	11,161	9,923
Unrealized (loss) gain on investments — net	(17,728)	12,338
Temporarily restricted net investment income	(1,011)	26,159
Total	$ (19,198)	$ 89,920

5. PLEDGES RECEIVABLE

Outstanding pledges and contributions receivable from various corporations, foundations, and individuals at June 30, 2008 and 2007, were as follows (in thousands):

	2008	2007
Pledges due:		
In less than one year	$ 21,530	$ 23,430
In one to five years	59,065	55,374
Due after five years	999	3,326
Discount on pledges	(7,341)	(8,511)
Total pledges receivable — at net present value	$ 74,253	$ 73,619

6. TRUSTEE-HELD FUNDS

Trustee-held funds consist of proceeds from the Series 2002 Insured Revenue Bonds, Series 2004 Insured Revenue Bonds, and 2007 Insured Revenue Bonds. These funds, which have been designated for capital improvements in accordance with the agreements, are invested primarily in U.S. Treasury and federal agency obligations as permitted in the bond indentures. The trustee-held funds also included $21.4 million and $25.1 million at June 30, 2008 and 2007, respectively, for the economic defeasance of the Series 1993 Insured Revenue Certificates (see Note 8).

The current portion of trustee-held funds included in the accompanying consolidated balance sheets represents the amounts deposited with the trustees to pay the interest for the Series 2007 Insured Revenue Bonds and that portion of principal and interest on the 1993 Certificates due within 12 months of the fiscal year end.

7. PROPERTY, PLANT, AND EQUIPMENT

A summary of property, plant, and equipment as of June 30, 2008 and 2007, is as follows (in thousands):

	2008	2007
Buildings and improvements	$ 379,691	$ 372,553
Equipment	244,724	233,221
Allowance for depreciation	(371,580)	(333,922)
Total property, plant, and equipment	252,835	271,852
Construction in progress	314,893	163,132
Land	12,508	12,508
Property, plant, and equipment — net	$ 580,236	$ 447,492

8. LONG-TERM DEBT

Long-term debt at June 30, 2008 and 2007, consists of the following obligations (in thousands):

	2008	2007
Insured Revenue Bonds Series 2007, consisting of three series for \$53,100, \$52,800, and \$64,100, collateralized by a pledge of gross revenues, interest payable semiannually at 5.00%, serial maturities through 2047. \$53,100 maturing in 2039; \$52,800 maturing in 2043, with the remaining balance maturing in August 2047, net of unamortized premium of \$713 and \$777 at June 30, 2008 and 2007, respectively	\$170,713	\$170,777
Insured Revenue Bonds Series 2004, consisting of \$48,700 Series 2004A and \$52,225 Series 2004B, collateralized by a pledge of gross revenues, with interest rates and interest payment dates to be determined based on the selected Interest Rate Mode as outlined below, serial maturities through September 2034, issued at par	100,925	100,925
Insured Revenue Bonds Series 2002, consisting of \$52,500 Series 2002A and \$52,500 Series 2002B, collateralized by a pledge of gross revenues, with interest rates and interest payment dates to be determined based on the selected Interest Rate Mode as outlined below, serial maturities through August 2032, issued at par	105,000	105,000
Revenue Certificates of Participation Series 1999, consisting of \$11,010 Insured Serial Certificates and two uninsured Term Certificates for \$7,730 and \$90,435, collateralized by a pledge of gross revenues, interest payable semiannually at rates ranging from 4.00% to 5.25%, serial maturities through 2014. \$8,190 maturing in 2014; \$7,730 maturing in August 2019, with the remaining balance maturing in August 2029, net of unamortized discount of \$1,846 and \$1,903 at June 30, 2008 and 2007, respectively	104,509	105,426
Insured Revenue Certificates of Participation Series 1993, collateralized by a pledge of gross revenues, interest payable semiannually at rates ranging from 3% to 6%, serial maturities through 2013 with remaining balance maturing in June 2021, net of unamortized premium of \$347 and \$483 at June 30, 2008 and 2007, respectively. Proceeds of 2004 Bonds were used to prepay \$45,840 of these Certificates with unamortized discounts of \$3,094	20,741	24,293
Less portion classified as current	(7,035)	(4,390)
Long-term debt — net	\$494,853	\$502,031

On April 1, 2007, the Hospital issued \$170,000 of California Statewide Communities Development Authority (the "Authority") Insured Revenue Bonds consisting of \$53,100 maturing on August 15, 2039, \$52,800 maturing on August 15, 2043, and \$64,100 maturing on August 15, 2047 (the "2007 Bonds"), pursuant to a master indenture dated December 1, 1993 (the "Master Indenture"), as amended by the Supplemental Master Indenture for Obligation No. 5. Financing costs are amortized over the life of the 2007 Bonds. Interest on the 2007 Bonds was 5.00%. The proceeds of the 2007 Bonds were used to (i) finance a portion of the costs of major expansion and modernization of the facilities, (ii) pay capitalized interest on the 2007 Bonds, and (iii) pay certain of the costs of issuance of the 2007 Bonds.

On September 8, 2004, the Hospital issued $100,925 of Authority Insured Revenue Bonds consisting of $48,700 Series 2004A Bonds and $52,225 Series 2004B Bonds (the "2004 Bonds"), pursuant to the Master Indenture, as amended by the Supplemental Master Indenture for Obligation No. 4. Interest rates on the 2004 Bonds are determined based on a Perpetual Adjusting Rate Securities Rate, which is determined at auction. Currently, the 2004 Bonds rate is established for seven-day auction periods. Financing costs are amortized over the life of the 2004 Bonds. Interest on the 2004 Bonds ranged from 2.30% to 10.00% for the year ended June 30, 2008, and 2.95% to 3.75% for the year ended June 30, 2007. The proceeds of the 2004 Bonds were used to (i) prepay a portion of the 1993 Certificates, (ii) finance a portion of the costs of a major expansion and modernization of the Hospital's facilities, and (iii) pay certain costs relating to the issuance of the 2004 Bonds (see Note 17).

The Hospital entered into an interest rate swap agreement in September 2004, hedging all of its Series 2004B Bonds. This interest rate swap has a notional amount of $52,225 and matures on February 15, 2034. The agreement effectively adjusts the Hospital's interest costs by swapping the variable interest rate on the Series 2004B Bonds to a fixed rate of 3.63%. The interest rate swap agreement had a fair value of $(2,116) and $1,716 at June 30, 2008 and 2007, respectively, which represents the estimated amount the Hospital would pay or receive, respectively, to terminate the swap via a competitively priced assignment. Because the swap is not designated as a cash flow hedge in accordance with FASB Statement No. 133, the change in fair value is reported as interest rate swap mark to market loss in the accompanying consolidated statements of activities.

On May 17, 2002, the Hospital issued $105,000 of Authority tax-exempt Series 2002A and Series 2002B Insured Revenue Bonds (the "2002 Bonds"), pursuant to the Master Indenture, as amended by the Supplemental Master Indenture for Obligation No. 3. Interest rates on the 2002 Bonds are determined based on the selected Interest Rate Mode, which may be any of the following: Commercial Paper Rate, Daily Rate, Auction Rate, Weekly Rate, or Long-Term Rate as defined in the Supplemental Master Indenture. The Auction interest rates on the 2002 Bonds ranged from 3.1% to 15.0% for the year ended June 30, 2008. Interest payment dates are specified for the various Interest Rate Modes and range from monthly to quarterly. As of June 30, 2007, interest on the 2002 Bonds was set at the Weekly Rate, which was 3.70%. On October 17, 2007, the Hospital notified the bond trustees, remarketing agents, auction agent, and liquidity facility provider for the 2002 Bonds of its decision to adjust the Interest Rate Mode on these bonds from a Weekly Rate to the Auction Rate Mode. This conversion was effective November 1, 2007. The proceeds of the 2002 Bonds were used to (i) finance a portion of the costs of major expansion and modernization of the facilities, (ii) pay capitalized interest on the 2002 Bonds, and (iii) pay certain of the costs of issuance of the 2002 Bonds (see Note 17).

On May 1, 1999, the Hospital issued $109,175 of Authority tax-exempt Series 1999 Revenue Certificates of Participation (the "1999 Certificates"), evidencing the proportionate interests of the registered holders in the right to receive certain installment payments to be made by the Authority from payments to be received from the Hospital, in connection with the sale and purchase of certain real property and improvements between the Hospital and the Authority. The 1999 Certificates were issued as Obligation No. 2 pursuant to the Master Indenture. The proceeds received from the sale of the 1999 Certificates were used to (i) finance certain capital improvements and equipment acquisitions at the Hospital, (ii) pay capitalized interest on the 1999 Certificates, and (iii) pay the costs of delivering the 1999 Certificates.

On December 1, 1993, the Hospital issued $103,780 of Authority tax-exempt Series 1993 Insured Revenue Certificates of Participation (the "1993 Certificates"), pursuant to the Master Indenture. The proceeds received from the sale of the 1993 Certificates were used to (i) advance refund the Hospital Revenue Bonds 1991 Series A, (ii) fund certain equipment acquisitions at the facilities, and (iii) pay certain costs relating to the execution and delivery of the 1993 Certificates. The Hospital Revenue

Bonds 1991 Series A are considered defeased, and the related liabilities have been removed from the Hospital's consolidated financial statements. On June 30, 2008 and 2007, the amount of these defeased bonds outstanding totaled $71,040.

The 1993 Certificates included Serial Certificates maturing from 1994 to 2013 and Term Certificates maturing in 2023. The Term Certificates were refinanced with the proceeds of the 2004 Bonds in 2004. In 2007, the Hospital established an escrow account with sufficient funds to pay the principal and interest on the outstanding 1993 Certificates. The balance of the escrow account at June 30, 2008 and 2007, was $21,450 and $25,140, respectively. As a result of the establishment of the escrow account, debt service associated with the remaining 1993 Certificates is excluded from the annual "income available for debt service" computation.

Pursuant to the Master Indenture, the Hospital has pledged its gross revenues as security for the 2007, 2004, and 2002 Bonds, as well as the 1999 and 1993 Certificates. The Master Indenture provides for limitations on the incurrence of additional indebtedness, unless certain conditions are met, and requires the Hospital to maintain certain financial ratios.

The aggregate principal maturities and sinking-fund requirements of long-term debt at June 30, 2008, are as follows (in thousands):

2009	$ 7,035
2010	7,405
2011	7,680
2012	8,125
2013	8,485
Thereafter	463,944
Total principal maturities	502,674
Less net unamortized discount	(786)
Total	$ 501,888

The premium on the 2007 Bonds and 1993 Certificates and the discount on the 1999 Certificates are being amortized over their respective lives using the effective interest method. Net premium amortization during the years ended June 30, 2008 and 2007, amounted to $143 and $117, respectively. The 2004 and 2002 Bonds were issued at par.

Cash paid for interest during the years ended June 30, 2008 and 2007, amounted to $22,921 and $15,950, including capitalized interest of $9,178 and $2,797, respectively. Interest capitalized was offset by interest income of $6,174 and $1,829 for the years ended June 30, 2008 and 2007, respectively.

9. PROPOSITION 61

In 2004, the State of California passed the Children's Hospitals Bond Act of 2004 (the "Bond Act") whereby $750 million dollars will be provided to improve and expand California children's hospitals, as well as to purchase new medical equipment for these hospitals. The Hospital was awarded $74 million from the Bond Act, which is recognized as revenue when qualifying expenditures are reimbursed in accordance with the Bond Act.

Funds totaling $19.4 million and $1.0 million were paid to the Hospital and were treated as an advance to the Hospital for the years ended June 30, 2008 and 2007, respectively. Qualified expenditures of $33.0 million and $20.6 million were incurred and recognized as revenue during the years ended June 30, 2008 and 2007, respectively. These amounts are shown as Proposition 61 — building construction revenue in the accompanying consolidated statements of activities. The remaining unexpended advances are shown as Proposition 61 — advances in the accompanying consolidated balance sheets.

10. COMMITMENTS AND CONTINGENCIES

Since 1994, the Hospital has been insured on a claims-made basis for both professional/general liability coverage and directors and officers coverage. The policies carry per claim deductible amounts of $250,000 and $25,000, respectively. Estimated costs of tail coverage of $4.0 million and $4.2 million as of June 30, 2008 and 2007, respectively, have been accrued and are included in other noncurrent liabilities in the accompanying consolidated balance sheets.

The Hospital is self-insured for workers' compensation benefits for employees. Annual expense and funding under this program is based on past claims experience and projected losses. Insurance coverage, in excess of the per-occurrence, self-insured retention, has been secured with insurers. Actuarial estimates of uninsured losses for the workers' compensation program are $8.5 million and $8.4 million at June 30, 2008 and 2007, respectively, and include an estimate for claims incurred but not reported. These amounts are included in other noncurrent liabilities in the accompanying consolidated balance sheets, net of the current portions of $1.5 million and $1.3 million as of June 30, 2008 and 2007, respectively, which are included in accounts payable and accrued expenses.

Legal proceedings arising from the normal conduct of business are pending, but in the opinion of management and legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position or results of operations of the Hospital.

The Hospital leases certain facilities under operating leases with terms of 1 to 10 years. Total rental expense on operating leases for the years ended June 30, 2008 and 2007, was $5.4 million and $6.3 million, respectively. Future payments under noncancelable operating leases are as follows (in thousands):

Years Ended June 30	
2009	$ 5,731
2010	3,123
2011	1,583
2012	892
2013	593
Thereafter	835
Total	$ 12,757

Seismic Standards — The State of California requires compliance with certain seismic standards by 2013. The Hospital is in the process of constructing a new patient tower, which will contain between 283 and 317 inpatient beds and support functions. The total cost of the new tower, including the guaranteed maximum price (GMP), planning expenses, design costs, and equipment is expected to be approximately $548 million, of which approximately $274 million has been spent to date. The construction costs under the GMP may be adjusted for change orders and are subject to a number of conditions. Additionally, there will be other costs associated with completing and opening the new tower, including an information technology upgrade, transition, and move-related expenses. The additional costs may be between $35 million and $50 million.

11. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2008 and 2007, are available for the following purposes (in thousands):

	2008	2007
Hospital programs	$ 80,017	$ 80,168
Capital projects	68,132	59,446
Pledges receivable for specific programs	74,252	73,619
Total temporarily restricted net assets	$222,401	$213,233

Permanently restricted net assets at June 30, 2008 and 2007, are restricted to the following (in thousands):

	2008	2007
Hospital programs	$130,677	$130,244
Capital projects	6,274	6,274
Total permanently restricted net assets	$136,951	$136,518

The investment earnings from the permanently restricted net assets are designated for hospital programs, including basic and clinical research, orthopedic surgery, and surgical equipment, as well as capital projects, while the corpus may not be expended under the terms of the donor restrictions.

12. EMPLOYEE BENEFIT PLANS

The Hospital maintains a defined contribution plan for the benefit of its employees. Employees who have satisfied minimum service requirements are eligible to defer a percentage of their salaries, up to the maximum amount allowed by the Internal Revenue Service. The Hospital will contribute 1% of an employee's pay for eligible employees and 100% of employee contributions up to the first 3% of employee pay for participating employees. The Hospital's contribution expense was $5.9 million and $5.7 million for the years ended June 30, 2008 and 2007, respectively.

The Hospital maintained a Supplemental Executive Retirement Plan for the benefit of one of its executives, which provided for a payment based on years of service up to the retirement date. In the year ended June 30, 2008, $2.9 million was paid out to the executive. The amount had been fully accrued as of June 30, 2007. As of June 30, 2008, no additional liability remained.

13. REVENUES AND EXPENSES BY FUNCTION

	Year Ended June 30, 2008				
	Clinical	Research	Education (In Thousands)	Foundation	Hospital
Revenues	$ 402,891	$ 62,153	$ 47,103	$ 31,072	$ 543,219
Expenses	(455,910)	(57,222)	(47,255)	(13,026)	(573,413)
Subtotal	(53,019)	4,931	(152)	18,046	(30,194)
Unrestricted donations used for research and education		2,440		(2,440)	
Overhead allocations	38,852	(27,448)	(11,031)	(373)	
(Deficiency) excess of revenues over expenses	$ (14,167)	$ (20,077)	$ (11,183)	$ 15,233	$ (30,194)

	Year Ended June 30, 2007				
	Clinical	Research	Education (In Thousands)	Foundation	Hospital
Revenues	$ 365,900	$ 62,647	$ 39,522	$ 29,585	$ 497,654
Expenses	(423,761)	(57,885)	(39,487)	(11,169)	(532,302)
Subtotal	(57,861)	4,762	35	18,416	(34,648)
Unrestricted donations used for research and education		2,500		(2,500)	
Overhead allocations	19,515	(12,624)	(6,518)	(373)	
(Deficiency) excess of revenues over expenses	$ (38,346)	$ (5,362)	$ (6,483)	$ 15,543	$ (34,648)

Unallocated overhead and general and administrative expenses are included with clinical expenses. The activities of Versant are included in education.

14. FEDERAL EMERGENCY MANAGEMENT ADMINISTRATION

The Hospital was impacted by the January 1994 Northridge earthquake. As a result, the Hospital negotiated with the FEMA for the replacement of the Hospital's inpatient tower. Under the terms of the agreement, the Hospital will be reimbursed for eligible costs of rebuilding the facility up to $110 million. The grants are subject to final settlement after submission of reports and audits thereof by FEMA. The Hospital received $14.0 million and $19.6 million in reimbursement from FEMA for eligible costs during the years ended June 30, 2008 and 2007, respectively. As of June 30, 2008, a total of $89.6 million in eligible funds had been received by the Hospital from FEMA.

Benjamin Figueroa
Associate Vice President for Research Administration

Jim Mopsikoff
Director of Post-Award Financial Services

71. The Hospital's net assets are properly classified as to permanently restricted, temporarily restricted, and/or unrestricted based on the existence or absence of donor-imposed restrictions. Also, the Hospital has maintained an appropriate composition of net assets in amounts needed to comply will all donor restrictions.

72. The Hospital is in compliance with contractual agreements, grants and donor restrictions.

73. The Hospital has recorded all contributions received during the year and has maintained an appropriate composition of assets in amounts needed to comply with all donor restrictions.

74. Provision has been made for any loss to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.

75. Provision has been made for any loss to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.

76. Provision has been made for losses to be sustained in the fulfillment of, or from the inability to fulfill, any commitments to purchase or sell securities under forward-placement, financial futures contracts, and standby commitments.

77. Legal proceedings arising from the normal conduct of business are pending, but, in the opinion of legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position or results of operations of the Hospital.

Richard Cordova
Chief Executive Officer

Diemlan (Lannie) Tonnu
Senior Vice President, Finance And Chief Financial Officer

63. Impaired loans receivables have been properly recorded and disclosed in the consolidated financial statements.

64. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Hospital and do not include any items consigned to it or any items billed to customers.

65. We believe that all expenditures that have been deferred to future periods are recoverable.

66. Accruals for losses from malpractice, workers compensation, and other types of self-insured risk, including accruals for claims incurred but not reported have been properly recorded and disclosed in the consolidated financial statements.

67. The Hospital has reported to its risk management department all known asserted and unasserted claims and incidents. Adequate and reasonable provision has been made for losses related to the asserted and unasserted malpractice.

68. We have evaluated the effects of adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), and the application of FIN 48 for the period since the date of adoption, and have concluded that:

    a. We have identified all uncertain tax positions.

    b. The units of account selected for uncertain tax positions are consistent with the manner in which the Hospital prepares and supports its income tax return and the approach the Hospital anticipates that the tax authorities will take during examinations.

    c. The recognition of tax benefits is limited to only those tax positions that are more likely than not, based solely on the technical merits of the tax positions, of being sustained upon examination.

    d. The measurement of those tax positions that meet the more likely than not recognition threshold has been determined as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with a taxing authority that would have full knowledge of all relevant information.

    e. The recognition and measurement of tax positions is based upon the facts, circumstances, and information available as of the reporting date.

    f. The recording of interest and penalties is in accordance with FIN 48 and has been determined according to the provisions of the relevant tax law.

    g. The disclosures related to the accounting for uncertain tax positions are complete and in accordance with FIN 48.

69. We have made available to you all communications with tax authorities and/or communications with outside tax advisors.

70. We have no intention of terminating our 401(k) plan or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of the 401(k) plan to which we contribute.

56. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the consolidated financial statements.

57. The methods and significant assumptions used to determine fair values of those investments are as follows:

Investments for which readily determinable market values do not exist are recorded at fair value, determined by the Hospital, with the assistance of fund managers, the general partners, or third-party service providers, using methods and significant assumptions the Hospital considers appropriate based on its understanding of the underlying characteristics of the investments.

The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes in accordance with GAAP.

58. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the consolidated financial statements.

59. The Hospital has properly identified all derivative instruments and any financial instruments that contain embedded derivatives. The Hospital's hedging activities, if any, are in accordance with its documented and approved hedging and risk management policies, and all appropriate hedge documentation was in place at the inception of the hedge in accordance with paragraphs 16, 20(a), and 28(a) of FASB Statement 133. Specifically, we have appropriately designated all hedging instruments as either fair value or cash flow hedges or hedges of the foreign currency exposure of a net investment in a foreign operation. The timing, nature, and amounts of all forecasted transactions are probable of occurring. The fair values of all derivatives, embedded derivatives that have been bifurcated, financial instruments that contain embedded derivatives for which the Hospital has elected to measure the financial instruments at fair value in their entirety (pursuant to the provisions of FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*), and hedged items have been determined based on GAAP using prevailing market prices or by using financial models that are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at June 30, 2008 and 2007.

60. Receivables recorded in the consolidated financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

61. In determining the allowance for accounts receivable, adequate consideration has been given to, and adequate provision made for, estimated adjustments to revenue, such as for denied claims and changes to diagnosis-related group ("DRG") assignments.

62. The recorded valuation allowances for accounts receivable and settlements with third parties are necessary, appropriate, and properly supported. Provision has been made for estimated retroactive adjustments by third-party payors under reimbursement agreements.

51. The Hospital using its best estimates based on reasonable and supportable assumptions and projections, reviews long-lived assets for impairment in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The consolidated financial statements referred to above reflect all adjustments required by FASB Statement 144 as of June 30, 2008 and 2007.

52. The Hospital's billings to third-party payors comply with applicable coding principles and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse), and only reflect charges for goods and services that were medically necessary, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly documented.

53. There have been no internal or external investigations relating to the Hospital's compliance with applicable laws and regulations (including investigations in progress) that would have an effect on the amounts reported in the consolidated financial statements or on the disclosure in the notes to the consolidated financial statements.

54. With respect to third-party cost reports:

    a. All required Medicare, Medicaid, and similar reports have been properly filed.

    b. Management is responsible for the accuracy and propriety of all cost reports filed.

    c. All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payors.

    d. The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

    e. Adequate consideration has been given to, and appropriate provision made for, audit adjustments by intermediaries, third-party payors, or other regulatory agencies.

    f. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.

    g. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.

55. We agree with the findings of the specialists in evaluating the workers compensation liabilities and have adequately considered the qualifications of the specialist in determining amounts and disclosures used in the consolidated financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the specialist with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the specialist.

impact.

c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

44. There are no:

a. Violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Anti-Kickback Act, Limitation on Certain Physician Referrals (commonly referred to as the "Stark Law"), and the False Claims Act, in any jurisdiction whose effects should be considered for disclosure in the consolidated financial statements or as a basis for recording a loss contingency.

b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*.

45. The Hospital has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the notes to the consolidated financial statements.

46. The Hospital has complied with all aspects of contractual agreements, bond indentures or other debt instruments, grants, and donor restrictions that would have an effect on the consolidated financial statements in the event of noncompliance.

47. No department or agency of the Hospital has reported a material instance of noncompliance to us.

48. Other than those described in Note 17 to the consolidated financial statements, no events have occurred subsequent to June 30, 2008 that require consideration as adjustments to or disclosures in the consolidated financial statements.

49. Management has disclosed whether, subsequent to June 30, 2008, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.

50. With regard to the fair value measurements and disclosures of certain assets, liabilities, Revenue Certificates of Participation and Revenue Bonds, we believe that:

a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied in accordance with GAAP.

b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America.

c. No events have occurred subsequent to June 30, 2008 that requires adjustment to the fair value measurements and disclosures included in the consolidated financial statements.

not be in compliance with certain debt covenants included in the letter of credit agreements as of March 31, 2009 and potentially for other periods thereafter. In the event of noncompliance, the letter of credit banks have certain remedies up to and including requiring repayment of all outstanding balances. Management has been in discussions with the letter of credit banks, and has requested that the lender provide them with a waiver of this covenant. If the waiver is granted, no forced repayment will be immediately required. However, in the event that no waiver is provided, the Hospital has various other options including the refinancing this debt and/or utilizing liquid assets to refund the debt.

Except where otherwise stated below, matters less than $500,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the consolidated financial statements.

39. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the consolidated financial statements.

40. The Hospital has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

41. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the consolidated financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

    b. Guarantees, whether written or oral, under which the Hospital is contingently liable.

42. In preparing the consolidated financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the consolidated financial statements for which known information available prior to the issuance of the consolidated financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the consolidated financial statements of a condition, situation, or set of circumstances that existed at the date of the consolidated financial statements will change in the near term due to one or more future confirming events

    b. The effect of the change would be material to the consolidated financial statements.

43. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the consolidated financial statements:

    a. The concentration exists at the date of the consolidated financial statements.

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe

Statement No. 115. SFAS No. 159 allows companies to elect fair value accounting for many financial instruments and other items that currently are not required to be accounted as such, allows different applications for electing the option for a single item or groups of items, and requires disclosures to facilitate comparisons of similar assets and liabilities that are accounted for differently in relation to the fair value option. FASB Statement No. 159 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact that the adoption of FASB Statement No. 159 will have on the Hospital's financial position, results of operations, and cash flows but currently does not believe it will have a material impact on the Hospital's financial statements.

34. In August 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*. The guidance is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. It provides guidance on classifying the net assets (equity) associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. It also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The provisions are effective for fiscal years ending after December 15, 2008. We are currently evaluating the impact that the adoption of FSP FAS 117-1 will have on the Hospital's financial position, results of operations, and cash flows but we do not believe it will have a material impact on the Hospital's consolidated financial statements.

35. At June 30, 2008, uninsured, uncollateralized deposits were approximately \$20.1 million. These deposits are held by creditworthy, high quality, financial institutions. We have performed the necessary procedures to assess the viability of these financial institutions.

36. Net credit balances in the expenditures column in the SEFA are the result of timing differences from effective dates of awards to when the Hospital receives award notices, delays in receiving no-cost extensions and supplemental expenditures and do not represent overbillings or overpayments on such awards. As a result of these circumstances, the 2007 SEFA was overstated by \$361,226.

37. We have considered the going concern assumption applied in preparing the consolidated financial statements and have concluded that it is appropriate. In doing so, we have considered, amount other things, forecasts through the next twelve months. The forecasts provided to you represent our best estimate of the Hospital's projected results through June 30, 2009.

38. Subsequent to June 30, 2008, the Hospital refinanced a portion of its outstanding long-term debt totaling \$150 million through long-term tax-exempt bonds secured by letters of credit. The letter of credit agreements include certain financial covenants relating to debt service coverage and days cash on hand, and require quarterly reporting of such covenants to theletter of credit banks As a result of the continued downturn in the economy and realized losses on investments, the Hospital is forecasting that they will

CHILDRENS HOSPITAL LOS ANGELES

APPENDIX A

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISTATEMENTS
YEAR ENDED JUNE 30, 2008
(Dollars in Thousands)

	DR	CR
AJE <1> (Known Misstatement)		
Patient Accounts Receivable	723	
Accounts Payable and accrued expenses		(723)
To reclassify credit balances to a liability as they reflect amounts due to patients or third parties		
AJE <2> (Known Misstatement)		
Property, Plant, and Equipment	962	
Grants, restricted for the purchase of net assets - other changes in net assets		(962)
Grants, contracts, and other - revenues	962	
Equipment Expense		(962)
To capitalize equipment purchased with federal funds		

CHILDRENS HOSPITAL LOS ANGELES

APPENDIX A

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008
(In thousands)

	As Reported 6/30/2008	Misstatements 6/30/2008 Increase (Decrease)		Results if Mistatements are Corrected
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets	$ (8,625)	$ 962	<2>	$ (7,663)
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization of property, plant, and equipment	43,165			43,165
Amortization of bond issuance costs	590			590
Amortization of bond discounts and premiums — net	(143)			(143)
Provision for doubtful accounts	9,926			9,926
Net realized and unrealized loss on investments	34,719			34,719
Loss on disposal of property, plant, and equipment	119			119
Contributions temporarily restricted for purchases of long-lived assets	(8,950)			(8,950)
Permanently restricted contributions	(1,621)			(1,621)
Proposition 61 — Building construction revenue	(33,043)			(33,043)
FEMA grant revenue	(14,016)			(14,016)
Changes in operating assets and liabilities:				
Patient accounts receivable	479			479
Pledges receivable	(634)			(634)
Grants receivable	2,648			2,648
Receivables/payables under government and state programs	4,587			4,587
Other current assets	(283)			(283)
Interest rate swap marked to market loss	3,832			3,832
Other assets	1,330			1,330
Accounts payable and accrued expenses	(8,277)			(8,277)
Salaries, wages, and related liabilities	1,344			1,344
Liability under unitrust agreements	(198)			(198)
Other noncurrent liabilities	7,703			7,703
Net cash provided by operating activities	34,652	962		35,614
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investments	(343,799)			(343,799)
Sale of investments	329,240			329,240
Cost of property, plant, and equipment acquired	(153,403)	(962)	<2>	(154,365)
Transfers from trustee-held funds	91,872			91,872
Restricted cash — Proposition 61 Funds	13,679			13,679
Net cash used in investing activities	(62,411)	(962)		(63,373)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt	(4,390)			(4,390)
Contributions temporarily restricted for purchase of long-lived assets	8,950			8,950
Proceeds from permanently restricted contributions	1,621			1,621
Proposition 61 — Advances	19,364			19,364
FEMA grant revenue	14,016			14,016
Proceeds from issuance of long-term debt				
Payment of financing costs	(547)			(547)
Net cash provided by financing activities	39,014			39,014
INCREASE IN CASH AND CASH EQUIVALENTS	11,255			11,255
CASH AND CASH EQUIVALENTS — Beginning of year	8,203			8,203
CASH AND CASH EQUIVALENTS — End of year	$ 19,458	$		$ 19,458
SUPPLEMENTAL INFORMATION RELATING TO NONCASH ITEMS:				
Property and equipment acquisitions included in accounts payable	$ 22,625	$		$ 22,625
Change in collateral received under securities lending program	$ (4,052)			
Change in payable under securities lending program	$ (4,052)			

See notes to consolidated financial statements.

CHILDRENS HOSPITAL LOS ANGELES

APPENDIX A

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008
(In thousands)

	As Reported 6/30/2008	Misstatements 6/30/2008 Increase (Decrease)		Results if Mistatements are Corrected
UNRESTRICTED NET ASSETS:				
Deficiency of revenues over expenses and other gains and losses	$ (9,181)			$ (9,181)
Cumulative effect of transfer of investments from available-for-sale to trading	(56,166)			(56,166)
Net unrealized gain on unrestricted investments available-for-sale (Note 4)				
Proposition 61 — building construction revenue (Note 9)	33,043			
FEMA grant revenue (Note 14)	14,016			14,016
Net assets released from restrictions used for purchase of property and equipment	2,443			2,443
Grants restricted for the purchase of equipment		962	<2>	962
Transfers and other	(2,381)			(2,381)
Decrease in unrestricted net assets	(18,226)	962		(17,264)
TEMPORARILY RESTRICTED NET ASSETS:				
Restricted grants, gifts, and bequests	44,431			44,431
Net investment income on restricted gifts and endowments (Note 4)	5,556			5,556
Realized gain on sale of restricted investments — net (Note 4)	11,161			11,161
Net unrealized (loss) gain on restricted investments (Note 4)	(17,728)			(17,728)
Net assets released from restrictions used for operations, research, and education	(33,572)			(33,572)
Net assets released from restrictions used for purchase of property and equipment	(2,443)			(2,443)
Change in value of split-interest agreements	(34)			(34)
Reclassification of net assets	1,797			1,797
Increase in temporarily restricted net assets	9,168			9,168
PERMANENTLY RESTRICTED NET ASSETS:				
Contributions	1,621			1,621
Change in value of split-interest agreements	113			
Reclassification of net assets	(1,301)			(1,301)
Increase in permanently restricted net assets	433			433
CHANGE IN NET ASSETS	(8,625)	962		(7,663)
NET ASSETS — Beginning of year	892,876			892,876
NET ASSETS — End of year	$ 884,251	$ 962		$ 885,213

See notes to consolidated financial statements.

CHILDRENS HOSPITAL LOS ANGELES

APPENDIX A

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008
(In thousands)

	As Reported 6/30/2008	Misstatements 6/30/2008 Increase (Decrease)		Results if Mistatements are Corrected
REVENUES (Notes 8 and 13):				
Net patient service revenue (Note 3)	$ 372,489	$		$ 372,489
Grants, contracts, and other	98,579	(962)	<2>	97,617
Unrestricted gifts and bequests	27,072			27,072
Investment income used for operations, research, and education (Note 4)	13,027			13,027
Net assets released from restrictions used for operations, research, and education	32,052			32,052
Total revenues	543,219	(962)		542,257
EXPENSES (Note 13):				
Salaries and employee benefits (Note 12)	285,511			285,511
Professional fees and purchased services (Note 15)	104,477			104,477
Supplies	73,758			73,758
Provision for doubtful accounts	9,926			9,926
Utilities	7,567			7,567
Rent (Note 10)	6,103			6,103
Insurance	3,464			3,464
Travel, dues, and subscriptions	4,513			4,513
Equipment	4,425	(962)	<2>	3,463
Other	13,407			13,407
Total expenses before depreciation, amortization, and interest	513,151	(962)		512,189
EXCESS OF REVENUES OVER EXPENSES BEFORE DEPRECIATION, AMORTIZATION, AND INTEREST	30,068			30,068
DEPRECIATION, AMORTIZATION, AND INTEREST:				
Depreciation and amortization	43,755			43,755
Interest	16,507			16,507
Total depreciation, amortization, and interest	60,262			60,262
DEFICIENCY OF REVENUES OVER EXPENSES	(30,194)			(30,194)
OTHER GAINS AND LOSSES:				
Realized gain on investments — net (Note 4)	18,676			18,676
Net unrealized gain on investments held for trading (Note 4)	9,338			
Other investment loss — net (Note 4)	(3,062)			(3,062)
Interest rate swap mark to market loss (Note 8)	(3,832)			
Other losses — net	(107)			(107)
Total other gains and losses	21,013			21,013
DEFICIENCY OF REVENUES OVER EXPENSES AND OTHER GAINS AND LOSSES	(9,181)			(9,181)
CUMULATIVE EFFECT OF TRANSFER OF INVESTMENTS FROM AVAILABLE-FOR-SALE TO TRADING	(56,166)			(56,166)
NET UNREALIZED GAIN ON UNRESTRICTED INVESTMENTS AVAILABLE-FOR-SALE (Note 4)				
PROPOSITION 61 — Building construction revenue (Note 9)	33,043			33,043
FEMA GRANT REVENUE (Note 14)	14,016			14,016
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR PURCHASE OF PROPERTY AND EQUIPMENT	2,443			2,443
GRANST RESTRICTED FOR THE PURCHASE OF EQUIPMENT		962	<2>	962
TRANSFERS AND OTHER	(2,381)			(2,381)
DECREASE IN UNRESTRICTED NET ASSETS	$ (18,226)	$ 962		$ (17,264)

COMMITMENTS AND CONTINGENCIES (Note 10)

NET ASSETS:				
Unrestricted:				
Operating	115,294	962	<2>	116,256
Board-designated	409,605			409,605
Total unrestricted net assets	524,899	962		525,861
Temporarily restricted (Note 11)	222,401			222,401
Permanently restricted (Note 11)	136,951			136,951
Total net assets	884,251	962		885,213
TOTAL	$ 1,552,224	$ 1,685		$ 1,553,909

CHILDRENS HOSPITAL LOS ANGELES

APPENDIX A

CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2008
(In thousands)

	As Reported 6/30/2008	Misstatements 6/30/2008 Increase (Decrease)		Results if Mistatements are Corrected
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 19,458	$		$ 19,458
Patient accounts receivable — net of allowance for doubtful accounts of $13,025 at June 30, 2008	72,225	723	<1>	72,948
Current portion of pledges receivable (Note 5)	21,530			21,530
Securities lent under securities lending program (Note 4)	41,549			
Collateral received under securities lending program	42,365			42,365
Grants receivable	7,714			7,714
Receivables under government and state programs				
Current portion of trustee-held funds (Notes 4 and 6)	16,936			16,936
Restricted Cash — Proposition 61 Funds (Note 9)	76			76
Other current assets (Note 15)	21,366			21,366
Total current assets	243,219	723		243,942
ASSETS LIMITED AS TO USE (Notes 4, 6 and 17):				
Investments	466,698			466,698
Unitrust investments	4,468			4,468
Other restricted and board-designated investments	94,120			94,120
Trustee-held funds — net of amount required to meet current obligations	88,533			88,533
Total assets limited as to use — net of current portion	653,819			653,819
PLEDGES RECEIVABLE — Net of current portion (Note 5)	52,723			52,723
INTEREST RATE SWAP (Note 8)				
OTHER ASSETS (Note 15)	22,227			22,227
PROPERTY, PLANT, AND EQUIPMENT (Note 7)	580,236	962	<2>	581,198
TOTAL	$ 1,552,224	$ 1,685		$ 1,553,909
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 60,714	$ 723	<1>	$ 61,437
Salaries, wages, and related liabilities	31,490			31,490
Payable under securities lending program	42,365			42,365
Payable under government and state programs	1,371			
Proposition 61 — advances (Note 9)	76			
Current portion of long-term debt (Note 8)	7,035			7,035
Total current liabilities	143,051	723		143,774
LONG-TERM DEBT — Net of current portion (Note 8)	494,853			494,853
LIABILITY UNDER UNITRUST AGREEMENTS	2,651			2,651
INTEREST RATE SWAP (Note 8)	2,116			
OTHER NONCURRENT LIABILITIES (Note 10)	25,302			25,302
Total liabilities	667,973	723		668,696

a. The length of the time and the extent to which the market value has been less than cost

b. The financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer

c. The intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

30. In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133. This statement is intended to improve reporting standards for derivative instruments and hedging activities by requiring enhanced disclosures to provide a better understanding of their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivatives instruments and related hedge items are accounted for under FASB Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedge items affect an entity's financial position, financial performance, and cash flows. This statement is effective for the Hospital beginning July 1, 2009. Adoption is not expected to have a significant affect on the Hospital's consolidated financial position or results of operations.

31. In December 2007, the FASB issued FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51. The objective of this statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FASB Statement No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the reporting entity and the interests of the noncontrolling owners and that require minority ownership interests to be presented separately within net assets in the consolidated financial statements. FASB Statement No. 160 is effective for the Hospital beginning July 1, 2009. We are currently evaluating the effect of adopting this statement.

32. In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*. FASB Statement No. 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which entities measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. FASB Statement No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. FASB Statement No. 157 does not expand the use of fair value in any new circumstances. FASB Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the adoption of FASB Statement No. 157 to have a material impact on its consolidated financial position or results of operations.

33. In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB*

a timely basis.

23. We have disclosed to you the accounting conventions used when preparing our consolidated financial statements. We believe that the effect of applying these accounting conventions and the use of such applications is immaterial to the consolidated financial statements.

24. We believe that the reclassification of investments from available-for-sale to trading securities is preferable because the investment managers have unfettered control over purchases and sales of the securities held by the Hospital Given the clarifying interpretive guidance on this subject, we believe that the change to trading securities is in compliance with the position by the AICPA's Health Care Organizations Expert Panel. The effective date of this change, as approved by the Audit Committee, was June 30, 2008.

25. Tax exempt bonds issued have retained their tax exempt status.

26. The allocation of expenses reported in Note 13 to the consolidated financial statements is reasonable based on the Hospital's operations.

27. As of June 30, 2007, the Hospital has properly classified investments in equity securities with readily determinable fair values on the balance sheets as either available-for-sale or trading, based on the Hospital's intent with respect to those securities. Specifically, the Hospital classifies investments in equity securities with readily determinable fair values as trading securities if those securities are held principally for the purpose of selling them in the near term. All other investments in equity securities with readily determinable fair values are classified as available-for-sale.

28. As of June 30, 2007, the Hospital has properly classified investments in debt securities on the balance sheets as held-to-maturity, available-for-sale, or trading, based on the Hospital's intent with respect to those securities. Specifically, the Hospital classifies investments in debt securities as trading securities if those securities are held principally for the purpose of selling them in the near term. The Hospital classifies investments in debt securities as held-to-maturity if the Hospital has the positive intent to hold such securities to maturity and the ability to do so. All other investments in debt securities are classified as available for sale.

29. With regard to the Hospital's investment in debt and equity securities trading, available-for-sale or held-to maturity, no events have occurred and no facts have been discovered with respect to such investments that would indicate an other-than-temporary impairment of the investments' value.

    Specifically, with regard to each of the Hospital's investments in debt or equity securities classified as trading, available-for-sale, or held-to maturity with a decline in fair value at June 30, 2008 below the amortized cost of the investment, the decline is deemed to be temporary, because the Hospital has the intent and ability to hold the investment until recovery. The Hospital considered all available evidence to evaluate the realizable value of its investments including the following factors listed in SEC Staff Accounting Bulletin Topic 5.M, Other-Than-Temporary Impairment of Certain Investments in Debt and Equity Securities:

f. Taken appropriate corrective action on a timely basis after receipt of a sub-recipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.

g. Considered the results of the sub-recipient's audits and made any necessary adjustments to the auditee's own books and records.

h. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit

i. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.

j. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

14. We are responsible for follow-up on all prior-years' findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.

15. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.

16. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

17. We believe that internal control over the receipt and recording of contributions is adequate.

18. We have included in the consolidated financial statements all assets and liabilities under the Hospital's control.

19. The Hospital has maintained an appropriate composition of assets in amounts needed to comply with all donor restrictions.

20. We believe that any reclassification between net asset classes is correct.

21. The Hospital has considered any potential unrelated business income tax items.

22. The Hospital is in compliance with the provisions of Internal Revenue Code (IRC) Sec. 501(c)(3) and is exempt from federal tax under IRC Sec. 501(a), as evidenced by a determination letter, dated April 30, 1981 and all information returns have been filed on

9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board ("FASB") Statement No. 5, *Accounting for Contingencies*.

10. The SEFA was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. In addition, we have accurately completed the appropriate sections of the data collection form.

11. We are responsible for the compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133 and provisions of grants and contracts relating to the Hospital's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities, in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Hospital is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

12. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.

13. We have:

    a. Identified the requirements of laws, regulations, and provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2008.

    b. Complied, in all material respects, with the requirements identified above in connection with federal awards, except as disclosed in the Schedule of Findings and Questioned Costs.

    c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations

    d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the consolidated financial statements have been prepared and are prepared on a basis consistent with that presented in the SEFA The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

    e. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.

a. Financial records and related data

b. Minutes of the meetings of trustees, directors, and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared

c. Peer review organization, fiscal intermediary, and third-party payor reports and information

d. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

3. There have been no:

   a. Action taken by the Hospital management that contravenes the provisions of federal laws and California laws and regulations, or of contracts and grants applicable to the Hospital

   b. Communications from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the consolidated financial statements.

4. There has been no communications (oral or written) from regulatory agencies, governmental representatives, employees, or others concerning noncompliance with laws and regulations in any jurisdiction (including those related to the Medicare and Medicaid antifraud and abuse statutes) or noncompliance with or deficiencies in financial reporting practices.

5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.

6. The Hospital has assessed risk, including the assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud, and has made available to you or has discussed with you the results of such assessment.

7. We have no knowledge of any fraud or suspected fraud affecting the Hospital involving:

   a. Management

   b. Employees who have significant roles in the Hospital's internal control over financial reporting

   c. Others if the fraud could have a material effect on the consolidated financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital received in communications from employees, former employees, analysts, regulators, or others.

March 31, 2009

ChildrensHospitalLosAngeles

International Leader in Pediatrics

Deloitte & Touche LLP
350 South Grand Avenue
Los Angeles, California 90071

We are providing this letter in connection with your audits of the consolidated balance sheets of Childrens Hospital Los Angeles (the "Hospital"), as of June 30, 2008 and 2007 and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the consolidated financial position, results of operations, changes in net assets and cash flows of the Hospital in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

a. The fair presentation in the consolidated financial statements of financial position, results of operations, changes in net assets, and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP)

b. The fair presentation of the Schedule of Expenditures of Federal Awards ("SEFA") accompanying the consolidated financial statements that is presented for the purpose of additional analysis of the consolidated financial statements.

c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards

d. Establishing and maintaining effective internal control over financial reporting

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The consolidated financial statements referred to above are fairly presented in conformity with GAAP. In addition:

   a. Revenues are appropriately classified in the consolidated statement of activities.

   b. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

   c. Costs to federal awards have been charged in accordance with applicable cost principles.

2. The Hospital has made available to you all:

Management Corrective Action Plan — The Hospital agrees with this finding. The initial payment was made for the purchase ventilators. Payment was made based on a check request. Accounts payable made a duplicate payment based on an invoice sent by the vendor. This was not matched up with earlier payment and thus paid in error. The Hospital's accounts payable and general accounting departments will enforce its procedures to ensure timely review of accounting transactions.

SECTION II — FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

08-1

CFDA Number 93.889 — Pass-through the County of Los Angeles — United States Department of Health and Human Services — National Bioterrorism Hospital Preparedness Program Pass Through Number H300171; year ended June 30, 2008.

Criteria — Section 310(b) of OMB Circular A-133 requires management of the Hospital to identify, in its accounts, all federal awards received and expended and the federal programs under which they were received.

Condition — The preliminary schedule of expenditures of federal awards for the year ended June 30, 2008, prepared by management of the Hospital excluded approximately $135,500 of equipment expenditures related to the grant described above. The understatement was caused by an accounting error in recording a refund received by the Hospital from a third-party vendor for duplicate payment. Subsequent to the identification of this error, an adjusting journal entry was recorded to correct the understatement.

Questioned Cost — No questioned costs have been identified.

Context — The Hospital receives various federal, state, and local grants or contracts. Certain equipment expenditures under the grant described above were excluded from the preliminary schedule of expenditures of federal awards prepared by management. The total adjusted federal expenditures for the grant described above were $958,560 for the year ended June 30, 2008.

Effect — The exclusion of the aforementioned equipment expenditures, caused by the recorded accounting error, initially understated the schedule of expenditures of federal awards by approximately $271,000.

Cause — The Hospital made a duplicate payment to a third-party vendor in acquiring certain equipment for the federal program; this duplicate payment was identified by management and refund requested. Upon receipt of the refund from the vendor an adjusting journal entry was recorded to correct for the duplicate payment. This adjusting entry was recorded backwards, resulting in an approximately $271,000 understatement of equipment expenditures. Management of the Hospital did not perform a timely review of expenditures for the federal program described above to identify this error in the schedule of expenditures of federal awards.

Recommendation — The Hospital should implement procedures to ensure that a timely review of expenditures under all federal programs is performed, thereby ensuring the accuracy of expenditures reported in the schedule of expenditures of federal awards.

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? ______ yes __X__ no
- Significant deficiency(ies) that are not considered to be material weaknesses? ______ yes __X__ none reported
- Noncompliance material to financial statements noted? ______ yes __X__ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ______ yes __X__ no
- Significant deficiency(ies) that are not considered to be material weaknesses? __X__ yes ______ none reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ______ yes __X__ no

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
Various	Research and Development Cluster
93.889	National Bioterrorism Hospital Preparedness Program
93.104	Short Doyle Mental Health Program

Dollar threshold used to distinguish between Type A and Type B programs: $1,604,564

- Auditee qualified as low-risk auditee? ______ yes __X__ no

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in the Hospital's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 08-1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Hospital's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, others within the Hospital, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

March 31, 2009

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of
Childrens Hospital Los Angeles:

Compliance

We have audited the compliance of Childrens Hospital Los Angeles (the "Hospital") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Hospital's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the Hospital in a separate letter dated November 21, 2008.

This report is intended solely for the information and use of management, the Board of Trustees, others within the Hospital, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

November 21, 2008

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Childrens Hospital Los Angeles:

We have audited the consolidated financial statements of Childrens Hospital Los Angeles (the "Hospital") as of and for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008 (except for Note 18 as to which the date is March 31, 2009). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the Hospital's internal control.

1. **Basis of Presentation** — The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

2. **Equipment Expenditures** — All capital expenditures are charged in the period in which the expenditure is incurred or as otherwise determined appropriate by and negotiated with the awarding agency.

3. **Pass-through Awards** — The Hospital receives certain federal awards from pass-through agencies where the amounts are commingled by the pass-through agency with other nonfederal funds and cannot be separately identified. The total amount of pass-through awards is included on the schedule of expenditures of federal awards.

4. **Subrecipients** — Of federal expenditures presented in the schedule, the Hospital provided federal awards to subrecipients as follows:

Program Title	Amount
Cardiac Function and Cardiac Iron (T2*) in Thalassemia	$ 81,463
Diagnostic and Prognostic Signatures	437,086
Gene Therapy using Hematopoiet	597,318
Molecular Basis of Lung Morphogenesis, Injury and Repair	771,256
Biology and Therapy of High Risk Neuroblastoma	242,672
Multy Modality Sensing for In Vivo Alcohol Quantitation	304,462
Los Angeles Bridges Program	85,838
Homeless Youth and Exploitation Program (HYEP)	219,574
National Child Traumatic Stress Initiative	88,831
Healthcare Facilities Emergency Care Partnership Program	151,353
Total	$2,979,853

5. **Credit Balances** — Net credit balances in the expenditures column are the result of timing differences from effective dates of awards to when the Hospital receives award notices, delays in receiving no-cost extensions, and supplement expenditures and do not represent over billings or over payments on such awards. As a result of these circumstances the 2007 schedule of expenditures of federal awards was overstated by $361,226.

* * * * * *

CHILDRENS HOSPITAL LOS ANGELES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Agency or Pass-Through Number	Expenditures
Other Block Grants (Continued):			
Passthrough from Head Start:			
Head Start Downey	93.600	N.A.	$ 34,337
USC Head Start	93.600	N.A.	5,209
Pass-through from Harbor Regional Center — E-K Harbor Regional Center	93.926	N.A.	3,360
Pass-through from Los Angeles Free Clinic:			
Pacific Asian Consortium in Education (PACE) Head Start	93.865	N.A.	27,743
High risk youth program assessment (rwj/tcwf) SUB/LAFC	93.926	N.A.	1,089
Pass-through from Long Beach Unified School District — Long Beach Head Start and Early Head Start Program	93.600	7122.07 – C648409	20,696
Pass-through from University of California — Early Developmental Screening and Intervention	93.865	1940 S HB067	17,963
Pass-through from State of California:			
California Access to Recovery Effort (CARE Program)	93.276	N.A.	6,159
Crisis Management Database, Mapping And Training Program	84.184	N.A.	2,347
Project AIM: Adult Identify Mentoring Project	93.283	Dii-0110-62-AIM-CHLA	132,013
Project Access: Improving Care	93.110	1H98 MC08579-01-00	232,160
Pass-through from County of Los Angeles — National Bioterrorism Hospital Preparedness Program	93.889	H300171	958,560
U.S. Department of Health and Human Services — Healthcare Facilities Emergency Care Partnership Program	93.889	1HFPEP070014-01-00	2,047,965
Total other federal awards			12,979,367
Pass-through from County of Los Angeles Department of Health Services — Short Doyle Mental Health Program	93.104	N.A.	6,850,846
Pass-through from County of Los Angeles — Short Doyle Mental Health Program — Cal Works	93.104	N.A.	253,836
GRAND TOTAL			$53,485,464

(Concluded)

CHILDRENS HOSPITAL LOS ANGELES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Agency or Pass-Through Number	Expenditures
National Heart, Lung, and Blood Institute —			
Stem Cell Transplantation Following Myocardial Infarct in Rats	93.837	1K18 HL092288-01	$ 2,992
Administration for Children and Families —			
Administration on Developmental Disabilities Core	93.632	90DD0602/02	333,811
Other Block Grants:			
MCHB Comprehensive Hemophilia Care	93.110	6H30 MC00036-08-01	128,701
Pass-through from County of Los Angeles:			
L.A County Job Corps	93.570	N.A.	172,384
Mental Health Services, Psychiatric Treatment	93.939	H209022	240,629
OPDF	93.865	H212613	1,454
EK Garvey School District	93.926	N.A.	1,264
Garvey School District Mental Health & Nutrition Program	93.865	N.A.	64,833
Family Development Network (Hollywood/Wilshire)	93.926	108166 LA City	(678)
Capacity Building And Support To Child Care Partners	84.315	041086:06:07	7,431
A Service Contract to Provide Nutrition Client Services	93.926	N.A.	56,534
Pass-through from California Department of Health Services:			
CCS Metabolic Center Vendor Agreement	93.389	06-00009	123,415
OAPP - HIV/AIDS Case Management Psycho Social Services	93.939	H210841	141,967
Adolescent Intervention, Treatment & Recovery Program	93.865	H-305540	4,699
Community Collaboration To Prevent Youth Violence	93.865	N.A.	20
Homeless Health Services Program - NEVC	93.865	H80CS00139	192,651
Integrated Service Systems for Infants, Preschoolers and Families	93.865	MH120012	734,916
Domestic Violence/Runaway and Homeless Youth	93.910	90EV0338	84,571
Homeless Youth and Exploitation Program (HYEP)	93.865	HX07-06-1185	384,942
Pass-through from Los Angeles Unified School District:			
L.A. High School-Based Clinic	93.865	0300721	32,275
Manual Arts High School-Based Clinic	93.865	N.A.	10,261
Los Angeles High School Health	93.276	N.A.	7,960
Pass-through from City of Los Angeles:			
Transgender (Human Services AIDS Prevention Program)	93.926	C-107094	36
Hollywood L.A. Bridges	93.865	C-100154	397,505
Los Angeles Bridges Program	93.865	C-100153	399,263
Transgender Youth Consortium	93.926	N.A.	52,522
City of L.A. Alcohol and Drug	93.276	N.A.	365,112
Family Development Network	93.926	108166 LA City	118,676
Pass-through from LA County Department of Public Social Services:			
Los Angeles Family AIDS Network	93.153	5 H12 HA 00040-17	53,072
Los Angeles Family AIDS Network	93.865	5 H12 HA 00040-17	87,449
CAL - LEARN	93.865	N.A.	103,857
CAL - LEARN Case Management Services	93.865	N.A.	605,327
Manual Arts H.S. Pregnancy Prevention - Office of Family Planning	93.865	03-75826	97,791
Homeless Youth Emergency Services Program	93.865	N.A.	768
Pass-through from State of California Attorney General Office:			
Crime Victims with Disabilities	16.575	2003-EW-BX-0011	10,436
Crime Victims with Developmental Disabilities	93.910	R0105002	9,092
Pass-through from U.S. Department of Education —			
Special Education Advocate Certification Project	84.325	H324C040174	143,625
Pass-through from University of California Los Angeles:			
The Interdisciplinary Maternal Child Health Training Grant	93.110	UCLA #1920 G FC487	22,944
Partners in Excellence for Leadership in MCH Nutrition	93.859	T79MC00013-14-01	104,017

(Continued)

CHILDRENS HOSPITAL LOS ANGELES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Agency or Pass-Through Number	Expenditures
Other Research and Development Awards (Continued):			
Tissue Engineered Intestine Salvage of Short Bowel	98.848	H37780	$ 8,748
Cardiac Signal Processing For Remote Human Vital Signs	43.001	#1329303	26,085
Pediatric Cancer COG	12.420	#16851	108,993
Total research and development awards			33,401,415
OTHER FEDERAL AWARDS:			
Bureau of Maternal and Child Health:			
Pass-through from University of Southern California —			
Leadership Education in Neurodevelopmental Disorders	93.110	T73mc00008-16-00	627,224
Pass-through from Department of Health & Human Services HRSA —			
Graduate Psychology Education Programs	93.926	5 D40HP00018-03-00	9,426
Awareness & Access to Care for Children and Youth	93.110	H98MC03905-01-00	183,864
State Implementation Grants for Integrated Community Systems for CSHCN	93.926	1 D70MC04493-01-00	188,110
Pass-through from Maternal & Child Health Bureau —			
Nateen AFLP Program	93.865	00-90042 A03	465,400
Substance Abuse and Mental Health Services Administration:			
Drug Free Communities Support	93.276	H9SP13135A	109,379
National Child Traumatic Stress Initiative	93.243	5 U79 SM57247-03	473,311
Center for Diseases Control:			
Pass-through from Department of Health and Human Services —			
DHHS-Public Health Conference Support Grant Program	93.630	C13/CCU924075-01	175
School-Based Emergency Preparedness	93.063	5 K01 CD000196-03	51,553
Packaging Project AIM: A Proven HIV Behavior	93.941	5 H62 PS000575-02	333,456
PS06-618: HIV Prevention Program	93.939	5U22 PS00500-02	222,233
Health Resources and Services Administration —			
T-G DHHS- HRSA Krozek	93.359	D64HP03093-01-00	194,097
Administration for Children and Families:			
Development Disabilities Project of National Significance	93.632	90DD0540	183,685
National Network of University Centers for Excellence	93.631	90DN0194/01	63,852
Galactosemia State Confirmation	93.839	03-75419	218,417
National Center of Birth Defects and Development Disabilities —			
Preventing Bleeding Disorder Complications in Region IX	93.283	2U01 DD0000204-02	156,494
National Institute of Diabetes and Digestive and Kidney Diseases:			
IL-7 in Human B1 and Lymphocyte Differentiation	93.395	5 K01 DK066163-03	2,819
Renal Tissue Derived from Amniotic Fluid Stem Cells	93.849	5 K08 DK073082-02	94,599
Kids Seek Cure For Kids	93.849	5R25 DK078385-02	137,732
Bladder Organogenesis and Tissue	93.849	1K08 DK078589-01A1	32,076
National Institute of Child Health and Human Development:			
Access to Care: Children with Special Health Care Needs	93.865	5 K23 HD047270-05	139,186
CHLA Child Health Research Career Development	93.865	5K12 HD052954-03	304,154

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CHILDRENS HOSPITAL LOS ANGELES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Agency or Pass-Through Number	Expenditures
Food and Drug Administration:			
Mibg Plus Intensive Chemotherapy	93.103	FD-R-002189-01	$ (6,359)
MND-ADA Transduced CD34+Cells For ADA-SCID	93.103	5R01 FD003005-02	64,621
Triostat in Children During CPB IND55367	93.103	FD-R-001971-03-3	7,045
Fondaparinum in Children with Thromnosis	93.103	5R01 FD003091-02	97,524
National Institute of Biomedical Imaging and Bioengineering —			
Digital Hand Atlas in Assessment	93.286	8 R01 EB000298-06	49
Department of Army —			
Bone Growth, Mechanical Stimulus, and IGF-I	12.420	DAMD17-01-1-0817	18,437
Nursing Science Research —			
Testing of the Transition Preparation Training Program	93.361	1R21 NR009415-01A1	137,107
National Center for Complementary and Alternative Medicine —			
Effects of Probiotics on Neonatal Bacterial Meningitis	93.213	5R21 AT003207-02	113,903
National Eye Institute:			
Early Intervention for Childhood Hypermetropia	93.867	5K23 EY016699-03	159,409
Pass-through from Doheny Eye Institute —			
Doheny Eye Institute / NIH-NCI	93.867	5 P30 EY003040	104,492
National Institute of Mental Health —			
Center for Genomic and Phenomic Studies in Autism	93.242	1U24 MH081810-01	14,621
National Institute of Environmental Health Science —			
Healthy Food, Healthy Schools, Healthy Communities	93.113	R25 ES012578	3,670
Other Research and Development Awards:			
Transplant Centers for Clinical - Division of Blood Diseases & Resources	93.855	N.A.	2,374
Harm Reduction Consortium	93.865	1003356	578
Bowel / Bladder Management Techniques for Children with Spina Bifida	93.865	417/810	269,299
CDC - Prevention of Hemophilia	93.110	U27/CCU916521-07	985
Generation of Cholangiocytes from Bone Marrow Cells	93.848	N.A.	16,489
Pediatric Off-Patent Drugs (PODS) Center for Sodium Nitroprusside	93.276	13290660-30011-B	40,535
Prevention of the Complication	93.926	U27/CCU922106-04	56,418
Small Animal Imaging Resource	93.856	2005-1598	2,716
Embedded Software Signal Processing & Hardware	43.001	#1298495	141,122
Pass-through from Loma Linda University -			
R-SubK ACS/Loma Linda University	93.865	N.A.	19,840
Pediatric Cancer Research Foundation Consortium	93.865	PCRF CU51504705	30,338
Emergency Response Crisis Management (ERCM)	84.184	041087:06:07	9,524
Childhood Asthma	93.991	RD-83082601-01	6,904
COG: Translational Research Committee Core Laboratory	93.865	N.A.	133,792
Ewing Sarcoma Preclinical Testing Research Study	93.395	N.A.	119,874
VM2M	93.887	60012893	50,302
Hemophilia Costs and Impact of Disease Study HUGs-5	93.110	N.A.	19,196
CSR--EHS: DEFT (Distributed Embedded Fault-Tolerant)	43.001	CNS-0615132	22,399
Proteomics Based Biomarker Detection	81.049	DE-FG02-06ER64257	706,700
Validating a Child Acute Stress Measure in English	93.242	1R01 MH076116-01A2	83,587

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CHILDRENS HOSPITAL LOS ANGELES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Agency or Pass-Through Number	Expenditures
National Institute of Child Health and Human Development (Continued):			
Pathogenesis of Mother to Child Transmission	93.865	5R01 HD040777-07	$ 465,274
Leadership Group for Adolescent Medicine Trials Network	93.865	5 U01 HD040533-05	99,992
NICHD International Pediatric and Perinatal HIV Studies Network	93.865	N01-HD-3-3345	154,845
Short Exclusive Breastfeeding to Reduce Postnatal Transmission of HIV	93.865	2RO1 HD39611-07A1	69,031
Mechanism for Liver Regeneration	93.865	1 K12 HD 00850	93,317
Immunologic Effects of Lactation on HIV Infected Women	93.865	5 R21 HD049287-02	77,438
Pathogenesis of HIV HCV in Hemophilia: HGDS	93.865	5R01 HD41224-04	61,325
Physiologically Guided Ventilator Strategies in Children	93.865	5U10 HD050012-04	581,609
Adolescent Medicine Trials Network for HIV/AIDS	93.279	5U01 HD040474-08	447,073
Pass-through from Social Scientific Systems -			
International Maternal Pediatric Adolescent AIDS	93.242	N.A.	177,636
Safer Weaning Practices For HIV-Infected Women	93.865	5R01 HD057617-02	183,212
Coordinating Center for Pediatric HIV/AIDS Cohort Study	93.865	5U01 HD052104-03	17,849
National Institute of Diabetes and Digestive and Kidney Diseases:			
Proposal as a Clinical Center for Treatment	93.847	5 U01 DK060916-07	811,242
Statistics Center for Pediatric Research	93.847	5U01 DK061230-07	1,454,208
Development of Leptin-Sensitive Hypothalamic Pathways	93.847	2 R01 DK065900-04	442,217
National Institute of Dental and Craniofacial Research:			
The Role of TGF-beta3 in Palatogenesis	93.121	5 R01 DE13085-08	408,704
Epithelial Dysfunctions in Pathogenesis of Cleft	93.121	1K99 DE018459-01	31,901
National Institute on Alcohol Abuse and Alcoholism:			
Multy Modality Sensing for In Vivo Alcohol Quantitation	93.865	N01 AA 3 3004	369,441
Role of FGF10 in Liver Organs	93.271	5K08 AA016290-02	192,098
National Institute on Drug Abuse:			
Ketamine Injection and HIV Risk	93.279	5 R01 DA015631-05	351,284
YMSM Drug Use, Sexual Risk & Health Promoting Behaviors	93.279	3R01 DA015638-05S1	1,038,612
Youth Gangs: Drug Use, Sexual Behavior, Violence	93.279	5R03 DA020410-02	26,465
Pass-through from County of Los Angeles —			
HIV/AIDS Evaluation of the Prevention for HIV Infected Persons (PHIPP)	93.926	H-212033-02	57,228
Impact of Gait Analysis on Surgical Outcomes	93.226	5 R01HS014169-03	321,526
Non-Medical Prescription Drugs Use Among High-Risk Youth	93.279	1R01 DA021299-01A2	126,534
African American Young Men's Study	93.279	1R01 DA022968-01A2	8,192
HIV Prevention for High Risk African American Young Men	93.279	1R21 DA024588-01	22,271
National Institute of General Medical Sciences:			
ECM Remodeling in Excessive Fibroplasia	93.856	5 R01 GM055081-06	213,970
Fundamentals of Surgical Research Course	93.859	5 R13 GM073537-04	7,812
National Institute of Neurological Disorders and Stroke:			
Invasion of Brain Endothelial Cells by C. Neoformans	93.853	2R01 NS047599-05	226,245
Development of Sexually Dimorphic Forebrain Pathways	93.853	5 RO1 NS037952-08	446,864
National Institute of Arthritis and Musculoskeletal and Skin Diseases:			
Molecular Interaction Between Tumor Cells and Bone	93.846	R21 AR051247	319
Mechanical Intervention to Improve Bone Mass	93.846	1R21 AR051564-01	648
Improving the Accuracy of Pediatric DXA Bone Studies	93.846	1 RO1 AR052744-01	424,739

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Agency or Pass-Through Number	Expenditures
National Heart, Lung, and Blood Institute:			
Molecular Mechanism of Lung Branching Morphogenesis	93.838	5R01 HL68597-03	$ 387,085
Nkx2.1 Family in Lung Morphogenesis Injury and Repair	93.838	5 R01 HL075773-04	137,452
Gene Therapy using Hematopoiet	93.839	5P01 HL073104-02	1,935,115
Alveolar Epithelial Cells: Development and Repair	93.839	5R01 HL65352-04	400,983
Gene Transduction and Gene Therapy Core	93.838	5 P50 HL054850-10	80,202
Molecular Basis of Lung Morphogenesis, Injury and Repair	93.838	5P01 HL060231-09	1,911,045
Developmental Type II Pneumocyte Protein Phosphorylation	93.838	5 R01 HL44060-13	393,031
The Role of KGF in Thymopoiesis	93.839	5 R01 HL070005-04	(105)
Human Models of Sickle Cell Vascular Damage	93.839	5 R01 HL071801-04	185,052
Negative Regulators of Lung Inflammation	93.838	1 R01 HL071945-01A1	272,749
Comprehensive Sickle Cell Center	93.839	5 U54 HL070595-03	8,324
A Composite Tissue-Engineered Aortic Valve Prosthesis	93.837	7R01 HL070980-02	216,689
FGF10 and Smooth Muscle Cells in Lung Organogenesis	93.838	5R01 HL074832-02	185,667
Activin Receptor-like Kinase 2 in Cardiac Morphogenesis	93.837	5 R01 HL074862-04	206,488
The California Thalassemia Clinical Research Center	93.839	5 U01 HL65239-04	2,997
Cardiac Function and Cardiac Iron (T2*) in Thalassemia	93.839	1R01 HL075592-01A1	526,053
Autocrine/Paracrine Growth Factors & Lung Morphogenesis	93.838	5R01 HL044977-16	454,806
Transplantation biology of human lymphoid progenitors	93.839	5 R01 HL077912-03	332,281
Cardiac Core Laboratory for TCRN L1-DFO Trial	93.839	UO1 HL065238-05	41,444
Role of Placenta Growth factor in Sickle ACS	93.839	5R01HL079916-04	51,557
Single Ventricle Reconstruction Trial	93.837	U01 HL68270	74,944
R-K Oakland Univ/NHLBI-NIH - J - Division of Heart and Vascular Diseases	93.839	5U54HL070587-03	60,535
Growth Factors in Lung Development	93.838	1R01 HL086322-01A2	152,346
Markers of Autonomic and Metabolic Control	93.837	1R21 HL090451-01	68,190
Center for Pediatric Stem/Progenitor Cell Research	93.839	5P50HL085036-02	129,830
National Institute of Allergy and Infectious Diseases:			
Lentiviral Vector Transfer to Hematopoietic Stem Cells	93.856	5R01 AI52798-03	(286,829)
Use of Gene Therapy to Induce Transplantation Tolerance	93.855	5 R21 AI049922-03	9,345
Mechanisms of Macrolide Resistance in Mycobacteria	93.855	2R01AI052291-04A2	242,910
Entry Pathway of New World Clade B Arenaviruses	93.856	5R21 AI55720-02	223
Pediatric AIDS Clinical Trial Group Core Virology Labs	93.856	5U01 AI41089-07	95
Escherichia Coli invasion of Brain Endothelial Cells	93.856	5 R01 AI040635-07	184,409
IL-7R and C-Kit Interactions in Thymopoiesis	93.855	5 R01 AI050765-05	121
Non-Human Primate Models for Human Xenotransplantation	93.855	5 RO152079-04	43,931
HIV Replication and Thymopoiesis in Adolescents	93.856	1 R01 AI051996-01A1	95,083
Drug Development for Opportunistic Infections Mycobacterium Avium	93.856	5N010 AI25468-05	195,214
Primary Immune Deficiency	93.855	N01-A1-30070	79
Receptor Use by Pathogenic New World Viruses	93.856	1 U54 AI065359	362,454
Brain Endothelial Receptor for E. Coli	93.855	2 RO1 AI040567-11A1	449,322
Pathogenesis and Treatment of Experimental Peritonitis	93.856	7 RO1 AI014032-27	(9,134)
Pathogenesis of Experimental Necrotizing Enterocolitis	93.855	5 R01 AI049473-05	(23,098)
Understanding how HIV-1 Vpu and HIV-2 Env stimulate virus release	93.855	5R01 AI068546-03	347,201
Clinical Trial Planning Grant: Lentrival Vector	93.855	1 R34 AI069947-01	10,052
Los Angeles Pediatric AIDS Clinical Trials Unit	93.944	5U01 AI27550-17	(11,996)
Invivo ADA Gene Delivery For the Treatment of SCID	93.855	5R01 AI074043-02	244,616
Mitochondrial DNA in Healthy Donors	93.856	5U01 AI050274-05	2,205
National Institute of Child Health and Human Development:			
Adolescent Medicine Trial Network for HIV/AIDS Interventions	93.865	5 U01 HD040463-08	637,077
Bone Mineral Density in Childhood Study-Clinical Center	93.865	NO1-HD-1-3333	507,678

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Agency or Pass-Through Number	Expenditures
U.S. Department of Health and Human Services			
RESEARCH AND DEVELOPMENT CLUSTER:			
National Center of Birth Defects & Development Disabilities —			
Research Initiatives For the Preventions of complications of Thalassemia	93.283	1U01 DD000309-01	$ 108,475
National Cancer Institute:			
Clinical Correlative Studies of Neuroblastoma	93.395	5R01 CA60104-11	185,521
Biology and Therapy of High Risk Neuroblastoma	93.395	5P01 CA81403-05	1,835,910
Metalloproteinase Inhibitors in Tumor Progression	93.396	5 R01 CA42919-17	214,923
Characterization BCR/ABL Related Genes	93.395	5 R01 CA082830-07	52,892
Training in Basic Research in Oncology	93.398	5T32 CA009659-15	157,076
Suppression of Brain Tumor Growth by Integrin Antagonist	93.395	5R01 CA098568-05	355,843
Gene Expression in Sarcomas of Childhood and Adolescence	93.393	5U01 CA88199-05	14,847
Treatment of BCR/ABL Caused Leukemias with FTIs	93.396	5R01 CA090321-07	102,411
ECM Matrix, Protease, and Melanoma Proliferation	93.396	5R01 CA098469-04	132,823
Integrated X-nuclear-MRI/MRS of Pediatric Brain Tumors	93.394	5R33 CA96032-02	(11,077)
Photodynamic Therapy Affects on the Tumor	93.395	2R01 CA031230-24	324,363
Mediators of EWS/FLI Oncogenes	93.396	5 R01 CA90666-05	100,757
Pass-through form University of Southern California —			
USC/Norris Comprehensive Cancer Ctr-Translational Pathology Core	93.397	2 P30 CA014089-31	212,199
BMT With Transduced Hematopoie	93.395	5P01 CA59318-09	31,060
Maternal Problem-Solving Training in Childhood Cancer	93.395	5R01 CA098954-03	73,247
Enhancing Photodynamic Therapy with COX-2 Inhibition	93.395	5R01 CA098971-02	357,986
Xenograft Models of Human Neuroblastoma Bone Metastases	93.396	5R21 CA102990-02	(11,881)
Children's Oncology Phase 1 / Pilot Consortium Grant U01	93.395	U01 CA97452-04	342,205
COG Neuroblastoma Target	93.395	U10 CA98543-05	710,196
Ubiquitination Regulation of Tumor Cell Differentiation	93.926	1 R21 CA111440-01	106,350
Ceramide in Angiogenic Integrin Signaling	93.865	1 R21 CA112177-01	(68)
Psychosocial Outcomes in Adolescent Cancer Survivors	93.395	13491	9,633
Novel Ceramide-based Chemotherapy for Acute Leukemias	93.394	5 R01 CA100895-04	133,419
Rebuilding Immunity for Survival Immune Assessment	93.395	5P01 CA100265-05	384,241
Pass-through from AM Society Evidence —			
R-SubK-Reynolds C.P. — NCI-St.	93.395	N01 CM 42216	268,685
Carotid Artery Disease Following Neck Irradiation	93.395	5R03 CA119755 - 02	42,266
Diagnostic and Prognostic Signatures	93.394	5 U01 CA114757-03	1,356,256
Localization & Function of iNKT Cells in Neuroblastoma	93.396	5 R01 CA116548-04	361,764
Autonomic and Metabolic Dysfunction in Obese Children	93.393	U54 CA116848	41,598
Low Birth Weight & Other Risk Factor for Hepatoblastoma	93.393	5 R01 CA111355-02	10,855
Enhancing Photodynamic Therapy	93.395	5 R21 CA119907-02	130,176
Childhood Cancer Survivor Study	93.395	2U24 CA055727-12A1	70,077
CAK-RARa Signaling in HSC and Leukemic Cell	93.396	1R01 CA120512-01A2	99,008
Plasminogen Activator Inhibitor	93.396	1R01 CA129377-01A1	4,982
COG Translational Research Committee Core Laboratory	12.420	N.A	284,807
Event Tracking And Visualization From Remote Sensors	43.001	N.A	12,970
Promoting Treatment of Adherence In Adolescent Leukemia	93.395	1R01 CA119162-01A	42,281
In Vivo Optical and Micro-PET	93.865	5P20 CA86352-03	30,840
Informed Consent in CCG	93.395	7 R01 CA083267-07	(1)
National Center for Research Resources:			
Pass-through form University of Southern California — General			
Clinical Research Center	93.865	5 M01 RR00043-46	1,386,026
Retroviral Vectors for Safe and Efficacious Gene Therapy	93.865	5 R42 RR019834-04	114,848
Planning Grant for Institution	93.389	1P20 RR023484-01	2,411
Developing and Improving Institutional Animal Resources	93.389	1G20 RR024015-01	59

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SUPPLEMENTAL SCHEDULE

The fair values of the Hospital's long-term debt, including the 2007, 2004, and 2002 Bonds and the 1999 and 1993 Certificates, are based on current trading values at or near the last business day of the fiscal year. At June 30, 2008, the fair value was $480 million, compared to the carrying value of $503 million. At June 30, 2007, the fair value was $511 million, compared to the carrying value of $506 million.

17. SUBSEQUENT EVENTS

On July 24, 2008, the Hospital issued $150 million in three series of California Statewide Communities Development Authority (the "Authority") Variable Rate Revenue Bonds (the "2008 Bonds"). Series 2008A, Series 2008B, and Series 2008C, each for $50 million, with maturity dates of August 15, 2023, August 15, 2031, and August 15, 2034, respectively, bear variable rates of interest. The proceeds from the 2008 Bonds were used to refund all of the outstanding 2002 Bonds, refund a portion of the outstanding Series 2004B, and pay certain costs incurred in connection with the issuance of the 2008 Bonds. The cost of refinancing the bonds was $4.6 million.

There was a decrease in fair value of the Hospital's investments as a result of general market conditions and the continued downturn of the economy subsequent to June 30, 2008. The Hospital has incurred approximately $79.9 million of net unrealized losses on investments for the period from July 1, 2008 through October 31, 2008.

18. DEBT COVENANT COMPLIANCE

Subsequent to June 30, 2008, the Hospital refinanced a portion of its outstanding long-term debt totaling $150 million through long-term tax-exempt bonds secured by letters of credit. The letter of credit agreements include certain financial covenants relating to debt service coverage and days cash on hand, and require quarterly reporting of such covenants to the letter of credit banks. As a result of the continued downturn in the economy and realized losses on investments, the Hospital is forecasting that they will not be in compliance with certain debt covenants included in the letter of credit agreements as of March 31, 2009 and potentially for other periods thereafter. In the event of noncompliance, the letter of credit banks have certain remedies up to and including requiring repayment of all outstanding balances. Management has been in discussions with the letter of credit banks, and has requested that the lender provide them with a waiver of this covenant. If the waiver is granted, no forced repayment will be immediately required. However, in the event that no waiver is provided, the Hospital has various other options including the refinancing this debt and/or utilizing liquid assets to refund the debt.

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15. RELATED-PARTY TRANSACTIONS

During the years ended June 30, 2008 and 2007, fees totaling $620,225 and $498,380, respectively, were paid to investment managers that had employees on the Board of Trustees of the Hospital. These investment managers managed 40% and 44% of investments at June 30, 2008 and 2007, respectively.

Pediatric Management Group (PMG) is a California limited liability company that manages the practice of University Childrens Medical Group (UCMG), based at the Hospital. The Hospital has recorded receivables from PMG and/or UCMG in the amounts of $3.5 million and $3.6 million at June 30, 2008 and 2007, respectively, which are included in other current assets in the accompanying consolidated balance sheets. These receivables relate to expenses incurred by the Hospital on behalf of PMG and/or UCMG.

During the years ended June 30, 2008 and 2007, fees totaling $1.6 million and $1.5 million, respectively, were paid for security services to a corporation whose president is on the Board of Trustees of the Hospital.

During the fiscal year ended June 30, 1999, the Hospital loaned $150,000 to one of its executives. The note is non-interest-bearing, with payment due six months after employment is terminated. The imputed interest is calculated at the applicable federal rate and is reported as income to the borrower on an annual basis. The balance due to the Hospital at June 30, 2007, was $150,000. The loan was paid in full in December 2007.

During the fiscal year ended June 30, 2006, the Hospital loaned $200,000 to one of its physician leaders. The note is non-interest-bearing, with one tenth being forgiven at the end of each year that the physician remains in his current capacity. Additionally, the Hospital makes monthly housing assistance payments to the bank on the physician's behalf in the amount of approximately $4,000 per month as a part of the relocation assistance to the physician. The debt forgiveness and relocation assistance are reported as income to the physician on an annual basis. Total notes receivable to physician leaders are $404,808 and $427,382 at June 30, 2008 and 2007, respectively.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Due to the short-term nature of cash and cash equivalents, restricted cash, receivables/payables under government and state programs, accounts payable and accrued expenses, and salaries, wages, and related liabilities, their carrying value approximates their fair value.

The fair values of assets limited as to use and the interest rate swap are based on quoted market prices, if available, or estimated, using quoted market prices for similar securities on the last business day of the fiscal year. Investments for which readily determinable market values do not exist are recorded at estimated fair value, determined by the Hospital, with the assistance of fund managers, the general partners, or third-party service providers, using methods and significant assumptions the Hospital considers appropriate based on its understanding of the underlying characteristics of the investments.

Pledges receivable are discounted at the current market interest rate at the time of receipt, which approximates their fair value. The fair values of liabilities under unitrust agreements are determined by utilizing discount rates commensurate with the corresponding investments at the time of receipt, which approximates their fair value.